

7 March 2024
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 31 December 2023.

Information and Advice

2. This report is to inform the Nottinghamshire Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.
3. The table below shows a summary of the total value of the investment assets of the Fund as at 31 December 2023 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 Dec 2023		Benchmark	30 Sept 2023		31 Dec 2022	
	£m	%		£m	%	£m	%
Growth	4,228	62.9%	60%	4,018	62.4%	3,879	61.2%
Inflation Protection	1,612	24.0%	28%	1,540	23.9%	1,582	25.0%
Income	680	10.1%	10%	646	10.0%	620	9.8%
Liquidity	207	3.1%	2%	238	3.7%	259	4.1%
	6,726	100.0%	100%	6,442	100.0%	6,340	100.0%

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next year or so as commitments to less liquid investments are called.
5. Within Inflation Protection are investments in Infrastructure assets amounting to £508.8m or 7.5% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.1% of the fund. Following the decisions made by Pension Fund

Committee in March 22 there was a long-term target for investments in infrastructure to be 9.8% of the fund. This target is being reviewed at today's meeting.

6. The table below shows the detailed breakdown by portfolio of the Fund as at 31 December 2023 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	469.9	34%	693.5	36%	0.0	0%					0.0	0%	1,163.4	17%
Overseas Equities														
North America	291.4	21%	718.1	37%							0.0	0%	1,009.5	15%
Europe	271.9	20%	158.9	8%							167.1	11%	597.9	9%
Japan	135.5	10%	68.5	4%							71.7	5%	275.7	4%
Pacific	129.6	9%	49.5	3%									179.1	3%
Emerging Markets	81.6	6%	108.9	6%	129.7	10%					0.0	0%	320.2	5%
Global	0.0	0%	76.3	4%	383.0	29%					0.0	0%	459.3	7%
	910.0	66%	1,180.2	62%	512.7	39%					238.8	16%	2,841.7	42%
Private Equity					54.6	4%					168.1	11%	222.7	3%
Inflation protection														
Property														
UK Commercial									362.2	69%			362.2	5%
UK Commercial - Local									29.6	6%			29.6	0%
UK Strategic Land									2.0	0%			2.0	0%
Pooled - UK					4.9	0%			38.1	7%	158.6	10%	201.6	3%
Pooled - Overseas									93.8	18%	57.6	4%	151.4	2%
									525.7		216.2	14%	746.8	11%
Infrastructure					113.3	9%					395.4	26%	508.7	8%
Inflation Linked					35.3	3%					321.1	21%	356.4	5%
Income														
UK Bonds														
Gilts					136.2	10%							136.2	2%
Corporate Bonds					136.2	10%							136.2	2%
Overseas Bonds														
Corporate Bonds					318.4	24%							318.4	5%
					318.4	24%							318.4	5%
Credit					153.3	12%					72.1	5%	225.4	3%
Liquidity														
Cash/Currency	0.0	0%	41.7	2%	0.2	0%	0.0	0%	0.0		123.3	8%	165.2	2%
Short bonds							41.4	100%					41.4	1%
Total	1,379.9	21%	1,915.4	28%	1,328.9	20%	41.4	1%	525.7	8%	1,535.0	23%	6,726.3	
Previous Qtr Totals	1,309.6	20%	1,819.4	28%	1,198.1	19%	58.8	1%	536.0	8%	1,520.4	24%	6,442.3	

7. The value of the Fund's investments has increased by £284.0 million (4.4%) since the previous quarter. Over the last 12 months the value has increased by £290.3 million (4.5%).

8. The table below shows the Fund Account for the first three quarters of 2023/24 with the audited full year figures for 2023/24.

Summary Fund Account	Q3 2023/24 £000	Full Year 2022/23 £000
Employer contributions	(139,502)	(175,315)
Member contributions	(41,206)	(54,643)
Transfers in from other pension funds	(13,701)	(18,937)
Pensions	164,555	197,937
Commutation of pensions and lump sums	29,614	36,224
Lump sum death benefits	5,338	6,202
Payments to and on account of leavers	5,457	17,991
Net (additions)/withdrawals from dealings with members	10,555	9,459
Administration Expenses	181	2,687
Oversight & governance expenses	724	1,701
Investment management expenses	2,580	21,838
Investment Income	(57,567)	(90,118)
Profits & losses on disposals & changes in value	(277,056)	204,164
Taxes on income	250	404
Net Returns on Investments	(334,373)	114,450
 Net (increase)/decrease in net assets	 (320,333)	 150,135

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	
	31 Dec 2023		30 Sep 2023		31 Dec 2022	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	112.7	1.67%	118.4	1.83%	111.6	1.76%
Other Fossil fuel	91.6	1.36%	99.4	1.54%	93.8	1.48%
Total Fossil fuel	204.3	3.02%	217.8	3.37%	205.4	3.24%
Sustainable & Renewable	835.5	12.37%	783.4	12.12%	786.4	12.38%

11. Concerns over oil supplies eased during the quarter and this was reflected in the share prices of Oil and Gas companies. Consequently the valuations of Oil and Gas holdings in the Fund reduced slightly.
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. Schroders lost £6.6m on their Oil and Gas holdings during the quarter, giving back some of their gains in the previous quarter.
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. 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 2023 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves which was presented to Committee at the December 2023 meeting.
17. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes eleven specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, the three LGPS Central Global Sustainable Equity funds, and three renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund and the Langan Lane Solar Farm. First Solar and Siemens Energy, held within the Schroders portfolio are also included.
18. An estimate of the renewable energy investments within the Fund's other infrastructure funds was added to these identified investments. Not all funds identify 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.
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).

	31 Dec 2023			30 Sep 2023		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	469,862	34.0%	35%	455,141	34.7%	
Overseas Equities:	910,068	66.0%	65%	854,450	65.3%	
North America	291,414	21.1%	20%	271,917	20.8%	
Europe	271,946	19.7%	20%	251,167	19.2%	
Japan	135,536	9.8%	10%	131,192	10.0%	
Pacific Basin	129,612	9.4%	10%	120,286	9.2%	
Emerging Markets	81,560	5.9%	5%	79,888	6.1%	
Cash	0	0.0%	0%	0	0.0%	
Total	1,379,930			1,309,591		

22. There were no purchases or sales during the period.

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.

	31 Dec 2023			30 Sep 2023		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	693,495	36.2%	40.0%	667,978	36.7%	
Overseas Equities	1,180,262	61.6%	59.5%	1,108,856	60.9%	
North America	718,104	37.5%	35.7%	671,293	36.9%	
Europe	158,901	8.3%	7.6%	145,889	8.0%	
Japan	68,525	3.6%	3.6%	65,807	3.6%	
Pacific Basin	49,483	2.6%	2.8%	48,415	2.7%	
Emerging Markets	108,946	5.7%	5.8%	105,305	5.8%	
Global Small Cap	76,303	4.0%	4.0%	72,147	4.0%	
Cash	41,748	2.2%	0.5%	42,534	2.3%	
Total	1,915,505			1,819,368		

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	28,544	18,991	9,553
Overseas Equities			
North America	60,122	62,537	-2,415
Europe	24,940	18,205	6,735
Japan	4,209	3,587	622
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	117,815	103,320	14,495

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 Dec 2023 Portfolio		30 Sep 2023 Portfolio	
	£000	£000	£000	%
Global equity	382,976	29%	350,676	31%
EM equity active	129,659	10%	127,299	11%
Corporate bonds	318,431	24%	294,024	24%
Gilts	136,243	10%	125,651	11%
Index linked gilts	35,271	3%		
Private Equity	54,578	4%	48,134	3%
Infrastructure	113,348	9%	108,819	9%
Credit	153,312	12%	143,334	12%
Property	4,883	0%		
Cash	191	0%	190	0%
Total	1,328,892		1,198,127	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	452	0	452
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Index Linked Gilts	30,013		30,013
Private Equity	3,716	0	3,716
Infrastructure	1,526		1,526
Property	4,883		4,883
Credit			0
Totals	40,590	0	40,590

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
09/11/2023	Unit 2C Bagshot Retail Park	Rent Review Memorandum
16/11/2023	The Ivy, Spinningfields, Manchester	Rent Review Memorandum
21/11/2023	Unit 4 Concorde Park, Concorde Way, Fareham	Lease and Rent Deposit Deed
29/11/2023	Land at Ditchling Road, Wivelsfield, East Sussex	Sale agreement
29/11/2023	Land at Carrington Farm, North Road, Tollesbury and Land on the North Side of Tollesbury, Essex	Promotion agreement
14/12/2023	Unit B1 Brooke Park, Handforth	Licence
19/12/2023	Units 2A and 2B Bagshot Retail Park, Bagshot, Surrey	Deed of Determination
20/12/2023	2A Bagshot Bagshot Retail Park, Bagshot, Surrey	AFL
21/12/2023	Chippenham Drive, Kingston Industrial Estate	Lease

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.

	31 Dec 2023		30 Sep 2023	
	£000	£000	£000	%
Private Equity	168,100	11.9%	179,100	12.4%
Infrastructure	395,400	28.0%	388,400	28.2%
Credit	72,100	5.1%	83,200	5.9%
Property Funds	216,200	15.3%	203,500	15.0%
Aegon DGF	321,100	22.7%	303,300	22.2%
Equity Funds	238,800	16.9%	226,200	16.3%
Total	1,411,700		1,383,700	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-7,219	3,530	-10,749
Infrastructure	-1,197	1,018	-2,215
Credit	-7,497		-7,497
Property Funds	10,370		10,370
Aegon DGF			0
Equity Funds			0
Totals	-5,543	4,548	-10,091

The negative purchases relate to returns of capital from various funds.

Responsible Investment Activity

30. 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.
31. 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 LGIM and Schroders and a number of smaller investment managers in addition to the LAPFF Quarterly Engagement report. 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>.
32. 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>.
33. 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. The October LAPFF business meeting was attended and will be reported to Committee at next month's meeting.
34. The 2023 Climate Risk report was presented at the December 2023 Pension Fund Committee meeting. LGPS Central attended the working party in October and presented on the proposed stewardship themes for the Central Pool.
35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter in addition to those already mentioned. The LGPS Central pool Responsible Investment Working Group was attended in October and considered such issues as stewardship, biodiversity and an update on Central's new ESG system. The Liontrust conference was attended – Liontrust manage LGPS Centrals Thematic Sustainable Equity Fund. The LAPFF Annual Conference was attended in December.
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 23/2/2024)

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