

8 June 2023
Agenda Item: 8

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 31 March 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 March 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 Mar 2023		Benchmark	31 Dec 2022		31 Mar 2022	
	£m	%		£m	%	£m	%
Growth	4,008	62.3%	60%	3,879	61.2%	3,985	60.6%
Inflation Protection	1,601	24.9%	28%	1,582	25.0%	1,583	24.1%
Income	633	9.8%	10%	620	9.8%	699	10.6%
Liquidity	194	3.0%	2%	259	4.1%	311	4.7%
	6,436	100.0%	100%	6,340	100.0%	6,578	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 £508.1m or 7.9% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.9% of the fund. Following the decisions made by Pension Fund

Committee in March 2022 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 31 March 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	448.6	35%	664.6	38%	0.0	0%					0.0	0%	1,113.2	17%
Overseas Equities														
North America	255.7	20%	667.1	38%							0.0	0%	922.8	14%
Europe	255.5	20%	137.5	8%							167.0	11%	560.0	9%
Japan	123.6	10%	61.0	3%							72.4	5%	257.0	4%
Pacific	124.2	10%	51.5	3%									175.7	3%
Emerging Markets	79.4	6%	99.8	6%	130.7	11%					0.0	0%	309.9	5%
Global	0.0	0%	69.7	4%	357.2	30%					0.0	0%	426.9	7%
	838.4	65%	1,086.6	61%	487.9	41%					239.4	15%	2,652.3	41%
Private Equity					30.5	3%					211.7	14%	242.2	4%
Inflation protection														
Property														
UK Commercial									339.2	63%			339.2	5%
UK Commercial - Local									30.1	6%			30.1	0%
UK Strategic Land									25.5	5%			25.5	0%
Pooled - UK									37.5	7%	195.1	13%	232.6	4%
Pooled - Overseas									103.8	19%	35.9	2%	139.7	2%
									536.1		231.0	15%	767.1	12%
Infrastructure					103.1	9%					404.9	26%	508.0	8%
Inflation Linked											326.3	21%	326.3	5%
Income														
UK Bonds														
Gilts					133.6	11%							133.6	2%
Corporate Bonds					133.6	11%							133.6	2%
Overseas Bonds														
Corporate Bonds					296.1	25%							296.1	5%
					296.1	25%							296.1	5%
Credit					143.5	12%					59.6	4%	203.1	3%
Liquidity														
Cash/Currency	0.0	0%	20.8	1%	0.2	0%	0.0	0%	0.0		86.3	6%	107.3	2%
Short bonds							86.7	100%					86.7	1%
Total	1,287.0	20%	1,772.0	28%	1,194.9	19%	86.7	1%	536.1	8%	1,559.2	24%	6,435.9	
Previous Qtr Totals	1,237.1	20%	1,737.3	27%	1,155.2	18%	103.3	2%	535.9	8%	1,571.4	25%	6,340.2	

7. The value of the Fund's investments has increased by £95.7 million (1.5%) since the previous quarter. Over the last 12 months the value has decreased by £142.1 million (-2.2%).

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

Summary Fund Account	Full Year 2022/23 £000	Full Year 2021/22 £000
Employer contributions	(175,315)	(165,539)
Member contributions	(54,643)	(51,127)
Transfers in from other pension funds	(18,937)	(5,860)
Pensions	197,937	186,770
Commutation of pensions and lump sums	36,224	34,297
Lump sum death benefits	6,202	6,945
Payments to and on account of leavers	17,991	8,893
Net (additions)/withdrawals from dealings with members	9,459	14,379
Administration Expenses	2,687	3,246
Oversight & governance expenses	1,701	1,531
Investment management expenses	21,838	20,657
Investment Income	(90,118)	(94,147)
Profits & losses on disposals & changes in value	204,164	(430,524)
Taxes on income	404	295
Net Returns on Investments	114,450	(524,376)
 Net (increase)/decrease in net assets	 150,135	 (484,563)

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 Mar 2023		31 Dec 2022		31 Mar 2022	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	103.8	1.61%	111.6	1.76%	129.4	1.97%
Other Fossil fuel	90.8	1.41%	93.8	1.48%	82.1	1.25%
Total Fossil fuel	194.5	3.02%	205.4	3.24%	211.5	3.21%
Sustainable & Renewable	823.4	12.79%	785.0	12.38%	486.4	7.39%

11. The previous year comparison relates to the quarter-end immediately following the Russian invasion of Ukraine which caused constraint in oil and gas supply and increased energy prices globally. Despite more recent easing in prices, they remain high compared to previous levels. 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 compared to before the invasion. Schroders lost £2.3m on their Oil and Gas holdings during the quarter.
12. Schroders holds 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, Neste, has a strong line-up of low carbon energy products.
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, whilst the data provided should show the Fund's exposure to fossil fuels reducing over time, it can only be an indicative part of 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 2022 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves which was presented to Committee in December 2022. 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 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 Langar 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 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.
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 Mar 2023			31 Dec 2022		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	448,630	34.9%	35%	435,123	35.2%	
Overseas Equities:	838,347	65.1%	65%	802,014	64.8%	
North America	255,698	19.9%	20%	244,662	19.8%	
Europe	255,513	19.8%	20%	234,898	19.0%	
Japan	123,582	9.6%	10%	119,669	9.7%	
Pacific Basin	124,167	9.6%	10%	123,601	10.0%	
Emerging Markets	79,387	6.2%	5%	79,184	6.4%	
Cash	0	0.0%	0%	0	0.0%	
Total	1,286,977			1,237,137		

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	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.

	31 Mar 2023			31 Dec 2022		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	664,622	37.5%	40.0%	665,753	38.3%	
Overseas Equities	1,086,629	61.3%	59.5%	1,023,795	58.9%	
North America	667,081	37.6%	36.3%	613,962	35.3%	
Europe	137,491	7.8%	7.0%	133,963	7.7%	
Japan	60,956	3.4%	3.5%	60,088	3.5%	
Pacific Basin	51,537	2.9%	2.9%	49,155	2.8%	
Emerging Markets	99,844	5.6%	5.8%	98,410	5.7%	
Global Small Cap	69,720	3.9%	4.0%	68,217	3.9%	
Cash	20,821	1.2%	0.5%	47,784	2.8%	
Total	1,772,072			1,737,332		

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	14,801	33,233	-18,432
Overseas Equities			
North America	112,186	78,726	33,460
Europe	25,313	36,147	-10,834
Japan	5,862	5,398	464
Pacific Basin	2,609	0	2,609
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	160,771	153,504	7,267

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 Mar 2023		31 Dec 2022	
	Portfolio		Portfolio	
	£000	%	£000	%
Global equity	357,228	30%	338,700	29%
EM equity active	130,719	11%	128,903	11%
Corporate bonds	296,110	25%	289,192	25%
Gilts	133,618	11%	130,444	11%
Private Equity	30,543	3%	27,817	2%
Infrastructure	103,126	9%	99,814	9%
Credit	143,468	12%	140,250	12%
Cash	177	0%	128	0%
Total	1,194,989		1,155,248	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	53,682	53,173	509
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Private Equity	2,010		2,010
Infrastructure	1,563		1,563
Credit			0
Totals	57,255	53,173	4,082

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
30/01/2023	Unit 1 Centurion Business Park, Blenheim Industrial Estate	Deed of Surrender
30/01/2023	Unit 4 Brooke Park, Handforth	Licence to Alter
21/02/2023	Gallowgate, Glasgow	Rent Review Memorandum
02/03/2023	Unit 4B & 4C Isabella Court, Mansfield	Lease
07/03/2023	Unit 3 Crosspoint Business Park, Coventry	Settlement Agreement
16/03/2023	Unit A Brook Park, Handforth	Lease
31/03/2023	Plot 6100 Richardson Way, Crosspoint Business Park, Coventry	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 Mar 2023		31 Dec 2022	
	£000	%	£000	%
Private Equity	211,700	14.4%	222,000	15.2%
Infrastructure	404,900	27.5%	385,800	26.4%
Credit	59,600	4.0%	60,400	4.1%
Property Funds	231,000	15.7%	234,700	16.0%
Aegon DGF	326,300	22.2%	325,800	22.3%
Equity Funds	239,400	16.3%	234,500	16.0%
Total	1,472,900		1,463,200	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-5,931	1,346	-7,277
Infrastructure	11,980		11,980
Credit			0
Property Funds	3,960		3,960
Aegon DGF			0
Equity Funds			0
Totals	10,009	1,346	8,663

Significant investments related to increasing the Fund's listed infrastructure holdings in TRIG and Impax Environmental. A capital distribution was received from the Dorchester Secondary credit fund (within Private Equity), accounting for the negative purchase.

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 Schroders 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. The Committee received Climate related training on green bonds and members and officers attended the LGPS Central RI Summit in March 2023.
33. Hermes EOS has exercised the Fund's voting responsibilities as its Proxy voting service. A quarterly report on voting activity can be found on the Fund's 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 its 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 in addition to those already mentioned. The LGC Investment Seminar was attended by the Independent Adviser, and by an officer remotely for some of the sessions. Several sessions related to various aspects of responsible investment. The LGPS Central pool Responsible Investment Working Group was attended in January 2023 and considered such issues as biodiversity, TCFD reporting and stewardship and plans for the Responsible Investment Summit in March 2023.
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 note the contents of the report.

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

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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 25/5/2023)

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