

14 December 2023
Agenda Item: 14

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 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 30 September 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	
	30 Sept 2023		Benchmark	30 June 2023		30 Sept 2022	
	£m	%		£m	%	£m	%
Growth	4,018	62.4%	60%	4,009	62.0%	3,690	59.7%
Inflation Protection	1,540	23.9%	28%	1,575	24.4%	1,635	26.4%
Income	646	10.0%	10%	647	10.0%	602	9.7%
Liquidity	238	3.7%	2%	234	3.6%	258	4.2%
	6,442	100.0%	100%	6,465	100.0%	6,185	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 £497.2m or 7.7% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.4% 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 September 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	455.1	35%	668.0	37%	0.0	0%					0.0	0%	1,123.1	17%
Overseas Equities														
North America	271.9	21%	671.3	37%							0.0	0%	943.2	15%
Europe	251.2	19%	145.9	8%							158.8	10%	555.9	9%
Japan	131.2	10%	65.8	4%							67.4	4%	264.4	4%
Pacific	120.3	9%	48.4	3%									168.7	3%
Emerging Markets	79.9	6%	105.3	6%	127.3	11%					0.0	0%	312.5	5%
Global	0.0	0%	72.1	4%	350.7	29%					0.0	0%	422.8	7%
	854.5	65%	1,108.8	61%	478.0	40%					226.2	15%	2,667.5	41%
Private Equity					48.1	4%					179.1	12%	227.2	4%
Inflation protection														
Property														
UK Commercial									367.2	69%			367.2	6%
UK Commercial - Local									30.4	6%			30.4	0%
UK Strategic Land									2.0	0%			2.0	0%
Pooled - UK									38.0	7%	157.8	10%	195.8	3%
Pooled - Overseas									98.4	18%	45.7	3%	144.1	2%
									536.0		203.5	13%	739.5	11%
Infrastructure					108.8	9%					388.4	26%	497.2	8%
Inflation Linked											303.3	20%	303.3	5%
Income														
UK Bonds														
Gilts					125.7	10%							125.7	2%
Corporate Bonds					125.7	10%							125.7	2%
Overseas Bonds														
Corporate Bonds					294.0	25%							294.0	5%
					294.0	25%							294.0	5%
Credit					143.3	12%					83.2	5%	226.5	4%
Liquidity														
Cash/Currency	0.0	0%	42.5	2%	0.2	0%	0.0	0%	0.0		136.6	9%	179.3	3%
Short bonds							58.8	100%					58.8	1%
Total	1,309.6	20%	1,819.3	28%	1,198.1	19%	58.8	1%	536.0	8%	1,520.3	24%	6,442.1	
Previous Qtr Totals	1,298.8	20%	1,814.5	28%	1,197.0	19%	67.1	1%	539.5	8%	1,547.9	24%	6,464.8	

7. The value of the Fund's investments has decreased by £22.7 million (-0.4%) since the previous quarter. Over the last 12 months the value has increased by £6.1 million (0.1%).

8. The table below shows the first half Fund Account for 2023/24 with the unaudited full year figures for 2022/23.

Summary Fund Account	Q2 2023/24 £000	Full Year 2022/23 £000
Employer contributions	(86,678)	(175,315)
Member contributions	(25,369)	(54,643)
Transfers in from other pension funds	(9,244)	(18,937)
Pensions	109,437	197,937
Commutation of pensions and lump sums	20,256	36,224
Lump sum death benefits	3,546	6,202
Payments to and on account of leavers	4,722	17,991
Net (additions)/withdrawals from dealings with members	16,670	9,459
Administration Expenses	84	2,687
Oversight & governance expenses	71	1,701
Investment management expenses	1,186	21,838
Investment Income	(35,641)	(90,118)
Profits & losses on disposals & changes in value	11,245	204,164
Taxes on income	209	404
Net Returns on Investments	(24,187)	114,450
 Net (increase)/decrease in net assets	 (6,176)	 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	
	30 Sep 2023		30 Jun 2023		30 Sep 2022	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	118.4	1.83%	102.2	1.58%	109.7	1.77%
Other Fossil fuel	99.4	1.54%	88.4	1.37%	90.3	1.45%
Total Fossil fuel	217.8	3.37%	190.6	2.95%	200.0	3.22%
Sustainable & Renewable	783.4	12.12%	810.9	12.54%	762.4	12.29%

11. Oil prices were high this quarter and this was reflected in the share prices of Oil and Gas companies. 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 Oil and Gas holdings in the Fund.
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 gained £15.3m on their Oil and Gas holdings during the 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 is being presented to Committee at today's 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).

	30 Sep 2023			30 Jun 2023		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	455,141	34.7%	35%	446,637	34.4%	
Overseas Equities:	854,450	65.3%	65%	852,195	65.6%	
North America	271,917	20.8%	20%	269,437	20.7%	
Europe	251,167	19.2%	20%	256,327	19.7%	
Japan	131,192	10.0%	10%	127,299	9.8%	
Pacific Basin	120,286	9.2%	10%	121,253	9.3%	
Emerging Markets	79,888	6.1%	5%	77,879	6.0%	
Cash	0	0.0%	0%	0	0.0%	
Total	1,309,591			1,298,832		

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.

	30 Sep 2023			30 Jun 2023		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	667,978	36.7%	40.0%	665,956	36.7%	
Overseas Equities	1,108,856	60.9%	59.5%	1,108,547	61.1%	
North America	671,293	36.9%	35.7%	672,378	37.1%	
Europe	145,889	8.0%	7.6%	140,849	7.8%	
Japan	65,807	3.6%	3.6%	65,130	3.6%	
Pacific Basin	48,415	2.7%	2.8%	49,133	2.7%	
Emerging Markets	105,305	5.8%	5.8%	107,407	5.9%	
Global Small Cap	72,147	4.0%	4.0%	73,650	4.1%	
Cash	42,534	2.3%	0.5%	40,043	2.2%	
Total	1,819,368			1,814,546		

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	7,813	3,630	4,183
Overseas Equities			
North America	75,792	81,887	-6,095
Europe	24,129	13,638	10,491
Japan	5,713	5,632	81
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	113,447	104,787	8,660

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.

	30 Sep 2023		30 June 2023	
	Portfolio		Portfolio	
	£000	%	£000	%
Global equity	350,676	29%	365,994	31%
EM equity active	127,299	11%	126,928	11%
Corporate bonds	294,024	25%	291,903	24%
Gilts	125,651	10%	126,509	11%
Private Equity	48,134	4%	34,832	3%
Infrastructure	108,819	9%	106,104	9%
Credit	143,334	12%	144,583	12%
Cash	190	0%	179	0%
Total	1,198,127		1,197,032	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	3,225	2,592	633
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Private Equity	13,334	23	13,311
Infrastructure	5,374		5,374
Credit			0
Totals	21,933	2,615	19,318

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
05/07/2023	Part of Motorline Dealership, The Drive, Gatwick Road, West Sussex	Licence to Underlet
18/07/2023	Unit 3a Isabella Court, Millennium Business Park Mansfield	Rent Review Memorandum
23/08/2023	3A Brooke Park, Handiforth, Cheshire	Licence to Underlet
05/09/2023	Unit 6100 Crosspoint, Coventry	Licence for Alterations

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 Sep 2023		30 June 2023	
	£000	%	£000	%
Private Equity	179,100	12.9%	176,600	12.4%
Infrastructure	388,400	28.1%	400,700	28.2%
Credit	83,200	6.0%	84,300	5.9%
Property Funds	203,500	14.7%	213,600	15.0%
Aegon DGF	303,300	21.9%	315,300	22.2%
Equity Funds	226,200	16.3%	231,100	16.3%
Total	1,383,700		1,421,600	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-657	2,402	-3,059
Infrastructure	419	414	5
Credit	-5,650		-5,650
Property Funds	3,000	1,398	1,602
Aegon DGF			0
Equity Funds			0
Totals	-2,888	4,214	-7,102

The negative purchase for credit relates to a return of capital on our Dorchester Credit Opportunities fund.

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 LGPS Central 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 July LAPFF business meeting was attended and reported to Committee in October 23.
34. Work started on the 2023 Climate Risk report during the quarter. The report is being presented at today's meeting.
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 July and considered such issues as stewardship, ESG in Real Estate and an update on Central's Net Zero policy.
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 1/12/2023)

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