

2 March 2023
Agenda Item: 11

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 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 31 December 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 Dec 2022		Benchmark	30 Sept 2022		31 Dec 2021	
	£m	%		£m	%	£m	%
Growth	3,879	61.2%	60%	3,690	59.7%	4,090	61.7%
Inflation Protection	1,582	25.0%	28%	1,635	26.4%	1,458	22.0%
Income	620	9.8%	10%	602	9.7%	744	11.2%
Liquidity	259	4.1%	2%	258	4.2%	336	5.1%
	6,340	100.0%	100%	6,185	100.0%	6,628	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 £485.6m or 7.7% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.8% 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 31 December 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	435.1	35%	665.8	38%	0.0	0%					0.0	0%	1,100.9	17%
Overseas Equities														
North America	244.7	20%	614.0	35%							0.0	0%	858.7	14%
Europe	234.9	19%	134.0	8%							158.2	10%	527.1	8%
Japan	119.7	10%	60.1	3%							76.3	5%	256.1	4%
Pacific	123.6	10%	49.2	3%									172.8	3%
Emerging Markets	79.2	6%	98.4	6%	128.9	11%					0.0	0%	306.5	5%
Global	0.0	0%	68.2	4%	338.7	29%					0.0	0%	406.9	6%
	802.1	65%	1,023.9	59%	467.6	40%					234.5	15%	2,528.1	40%
Private Equity					27.8	2%					222.0	14%	249.8	4%
Inflation protection														
Property														
UK Commercial									336.2	63%			336.2	5%
UK Commercial - Local									30.1	6%			30.1	0%
UK Strategic Land									27.7	5%			27.7	0%
Pooled - UK									36.7	7%	200.3	13%	237.0	4%
Pooled - Overseas									105.2	20%	34.4	2%	139.6	2%
									535.9		234.7	15%	770.6	12%
Infrastructure					99.8	9%					385.8	25%	485.6	8%
Inflation Linked											325.8	21%	325.8	5%
Income														
UK Bonds														
Gilts					130.4	11%							130.4	2%
Corporate Bonds					130.4	11%							130.4	2%
Overseas Bonds														
Corporate Bonds					289.2	25%							289.2	5%
					289.2	25%							289.2	5%
Credit					140.2	12%					60.4	4%	200.6	3%
Liquidity														
Cash/Currency	0.0	0%	47.8	3%	0.1	0%	0.0	0%	0.0		108.2	7%	156.1	2%
Short bonds							103.3	100%					103.3	2%
Total	1,237.2	20%	1,737.5	27%	1,155.1	18%	103.3	2%	535.9	8%	1,571.4	25%	6,340.4	
Previous Qtr Totals	1,164.1	19%	1,629.9	26%	1,069.6	17%	115.8	2%	623.4	10%	1,582.0	26%	6,184.8	

7. The value of the Fund's investments has increased by £155.6 million (2.5%) since the previous quarter. Over the last 12 months the value has decreased by £287.3 million (-4.3%).

8. The table below shows the Q3 Fund Account for 2022/23 with the audited full year figures for 2021/22.

Summary Fund Account	Q3 2022/23 £000	Full Year 2021/22 £000
Employer contributions	(110,521)	(165,539)
Member contributions	(33,041)	(51,127)
Transfers in from other pension funds	(16,729)	(5,860)
Pensions	148,098	186,770
Commutation of pensions and lump sums	28,291	34,297
Lump sum death benefits	4,528	6,945
Payments to and on account of leavers	12,685	8,893
Net (additions)/withdrawals from dealings with members	33,311	14,379
Administration Expenses	76	3,246
Oversight & governance expenses	434	1,531
Investment management expenses	2,018	20,657
Investment Income	(53,640)	(94,147)
Profits & losses on disposals & changes in value	293,799	(430,524)
Taxes on income	352	295
Net Returns on Investments	242,529	(524,376)
 Net (increase)/decrease in net assets	 276,350	 (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 Dec 2022		30 Sept 2022		31 Dec 2021	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	111.6	1.76%	109.7	1.77%	85.3	1.29%
Other Fossil fuel	93.8	1.48%	90.3	1.45%	70.0	1.06%
Total Fossil fuel	205.4	3.24%	200.0	3.22%	155.4	2.34%
Sustainable & Renewable	785.0	12.38%	763.5	12.30%	293.8	4.43%

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. Schroders gained £4.7m 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. ENEOS and Woodside Petroleum have both been sold during the period.
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 compared to a year ago. 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 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 nine 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.
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 Dec 2022			30 Sept 2022		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	435,123	35.2%	35%	399,445	34.3%	
Overseas Equities:	802,014	64.8%	65%	764,634	65.7%	
North America	244,662	19.8%	20%	245,632	21.1%	
Europe	234,898	19.0%	20%	211,764	18.2%	
Japan	119,669	9.7%	10%	114,144	9.8%	
Pacific Basin	123,601	10.0%	10%	114,378	9.8%	
Emerging Markets	79,184	6.4%	5%	78,716	6.8%	
Cash	0	0.0%	0%	0	0.0%	
Total	1,237,137			1,164,079		

22. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities			0
Overseas Equities			0
North America			0
Europe		1,686	1,686
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	1,686	1,686

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 2022			30 Sept 2022		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	665,753	38.3%	40.0%	614,612	37.7%	
Overseas Equities	1,023,795	58.9%	59.5%	987,599	60.6%	
North America	613,962	35.3%	36.3%	604,977	37.1%	
Europe	133,963	7.7%	7.0%	119,797	7.4%	
Japan	60,088	3.5%	3.5%	56,669	3.5%	
Pacific Basin	49,155	2.8%	2.9%	48,255	3.0%	
Emerging Markets	98,410	5.7%	5.8%	92,589	5.7%	
Global Small Cap	68,217	3.9%	4.0%	65,312	4.0%	
Cash	47,784	2.8%	0.5%	27,675	1.7%	
Total	1,737,332			1,629,886		

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	11,467	17,205	-5,738
Overseas Equities			
North America	36,248	33,872	2,376
Europe	20,385	18,020	2,365
Japan	5,354	5,004	350
Pacific Basin	0	0	0
Emerging Markets	5,765	0	5,765
Global Small Cap	0	0	0
Totals	79,219	74,101	5,118

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 2022		30 Sept 2022	
	Portfolio		Portfolio	
	£000	%	£000	%
Global equity	338,700	29%	323,286	30%
EM equity active	128,903	11%	128,227	12%
Corporate bonds	289,192	25%	275,702	26%
Gilts	130,444	11%	127,413	12%
Private Equity	27,817	2%	20,246	2%
Infrastructure	99,814	9%	60,728	6%
Credit	140,250	12%	133,881	13%
Cash	128	0%	147	0%
Total	1,155,248		1,069,630	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	15,619	15,047	572
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Private Equity	6,951		6,951
Infrastructure	39,086		39,086
Credit			0
Totals	61,656	15,047	46,609

The main significant movement was a £19m call on the Core Infrastructure fund and a £20m call on the Single Asset Infrastructure fund which is invested in the JP Morgan IIF. 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
08/11/2022	25-29 Clumber Street	Lease renewal
15/11/2022	Blenheim Industrial Estate	Rent Review Memorandum
18/11/2022	Finlay House 22-24 West Nile Street, Glasgow	Licence for works and renunciation for execution
06/12/2022	Unit 2, Brooke Park, Handforth	Deed of Surrender / Lease
07/12/2022	Units 3&4 Centurion Business Park	Rent Review Memorandum
13/12/2022	Unit B2 Brooke Park, Handforth	Lease renewal
20/12/2022	Unit 4, Technology Retail Park, Rugby	New lease
21/12/2022	DPD, Vertex Park, Bristol	Rent Review Memorandum

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 2022		30 Sept 2022	
	£000	%	£000	%
Private Equity	222,000	15.2%	225,300	15.3%
Infrastructure	385,800	26.4%	386,800	26.4%
Credit	60,400	4.1%	65,100	4.4%
Property Funds	234,700	16.0%	248,400	16.9%
Aegon DGF	325,800	22.3%	316,100	21.5%
Equity Funds	234,500	16.0%	226,200	15.4%
Total	1,463,200		1,467,900	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	6,980	832	6,148
Infrastructure	6,308		6,308
Credit			0
Property Funds	5,011	1,625	3,386
Aegon DGF			0
Equity Funds			0
Totals	18,299	2,457	15,842

Significant investments related to calls from Dorchester Secondary credit fund (within Private Equity), an investment in Darwin Bereavement within Infrastructure and a call on the Cheyne Property credit 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 Legal and General and 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 training on the Climate Risk Analysis report and received a report on the progress being made by the companies identified on our Climate Stewardship plan as part of the Climate Risk Analysis.
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 LAPFF Annual conference was attended by an officer and a committee member. The sessions related to various aspects of responsible investment. The LGPS Central pool Responsible Investment Working Group was attended in October 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 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 7/2/2023)

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