

9 December 2021
Agenda Item: 9
**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 2021.

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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 2021 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 September 2021		Benchmark	30 June 2021		30 September 2020	
	£m	%		£m	%	£m	%
Growth	4,172	64.3%	60%	4,208	65.9%	3,396	61.2%
Income & inflation protection	1,023	15.8%	23%	1,001	15.7%	863	15.5%
Income only	698	10.8%	10%	632	9.9%	719	13.0%
Inflation only	322	5.0%	5%	306	4.8%	214	3.9%
Liquidity	271	4.2%	2%	241	3.8%	359	6.5%
	6,486	100.0%	100%	6,388	100.0%	5,551	100.0%

4. Within Income & inflation protection are investments in Infrastructure assets amounting to £352.7m or 5.5% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 8.1% 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 2021 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					204.2	25%	0.0	0%					204.2	3%
Corporate Bonds							139.3	100%					139.3	2%
					204.2	25%	139.3	100%					343.5	5%
Overseas Bonds														
Corporate Bonds					321.1	39%	0.0	0%					321.1	5%
					321.1	39%	0.0	0%					321.1	5%
Inflation Linked											322.0	21%	322.0	5%
UK Equities	535.3	37%	917.0	45%	10.3	1%					0.0	0%	1,462.6	23%
Overseas Equities														
North America	303.5	21%	647.0	32%							0.0	0%	950.5	15%
Europe	248.8	17%	141.6	7%							164.6	11%	555.0	9%
Japan	132.2	9%	68.9	3%							117.9	8%	319.0	5%
Pacific	125.9	9%	55.0	3%									180.9	3%
Emerging Markets	86.3	6%	96.2	5%	130.0	16%					0.0	0%	312.5	5%
Global	0.0	0%	81.4	4%	41.2	5%					0.0	0%	122.6	2%
	896.7	63%	1,090.1	54%	171.2	21%					282.5	18%	2,440.5	38%
Private Equity					11.9	1%					257.3	17%	269.2	4%
Infrastructure					.6	0%					351.1	23%	352.7	5%
Credit					100.0	12%					72.3	5%	172.3	3%
Property														
UK Commercial									360.7	68%			360.7	6%
UK - Local									21.7	4%			21.7	0%
UK Strategic Land									3.9	1%			3.9	0%
Pooled - UK									29.3	6%	140.2	9%	169.5	3%
Pooled - Overseas									113.9	22%	0.8	0%	114.7	2%
									529.5		141.0	9%	670.5	10%
Cash/Currency	0.0	0%	15.4	1%	0.1	0%	0.0	0%	0.0		115.7	8%	131.2	2%
Total	1,432.0	22%	2,022.5	31%	820.4	13%	139.3	2%	529.5	8%	1,541.9	24%	6,485.6	
Previous Qtr	1,528.4	24%	1,949.0	31%	782.3	12%	80.7	1%	516.2	8%	1,531.7	24%	6,388.3	

6. The Fund investments have increased by £97.3 million (1.5%) since the previous quarter as the market has continued to grow, if unevenly. Fund investments have increased by £934.7 million (16.8%) over the last 12 months. Valuations at 30 September 2020 were depressed after a weak recovery from the market impact of the Covid-19 pandemic.

7. The table below shows the half year Fund Account for 2021/22 with the full year figures for 2020/21.

Summary Fund Account	Q2	Full Year
	2021/22	2020/21
	£000	£000
Employer contributions	(76,633)	(201,395)
Member contributions	(21,788)	(49,638)
Transfers in from other pension funds	(3,435)	(5,580)
Pensions	92,627	179,425
Commutation of pensions and lump sums	18,606	31,607
Lump sum death benefits	3,964	5,237
Payments to and on account of leavers	4,059	13,086
Net (additions)/withdrawals from dealings with members	17,400	(27,258)
Administration Expenses	696	2,692
Oversight & governance expenses	(247)	1,804
Investment Income	(27,991)	(84,822)
Profits & losses on disposals & changes in value	(1,046,096)	(988,631)
Taxes on income	171	172
Investment management expenses	1,326	4,370
Net Returns on Investments	(1,072,590)	(1,073,281)
Net (increase)/decrease in net assets	(1,054,741)	(1,091,672)

Sustainable investments and fossil fuels

8. 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.
9. 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 Schrodgers (direct) portfolio as investments are made based on Schrodgers 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 trend will be much less smooth.

	Latest Quarter		Previous Quarter		Previous Year	
	30 September 2021		30 June 2021		30 September 2020	
	£m	% of Fund	£m	%	£m	%
Schrodgers Fossil fuel	85.7	1.32%	71.4	1.12%	50.0	0.91%
Other Fossil fuel	84.2	1.30%	84.4	1.32%	68.9	1.26%
Total Fossil fuel	170.0	2.62%	155.7	2.44%	118.9	2.17%
Sustainable & Renewable	291.3	4.49%	257.0	4.02%	155.1	2.83%

10. In the most recent quarter the value of Fossil Fuel investments increased in absolute terms and as a small proportion of the fund in the Schroders portfolio. Schroders increased their sector holdings in the quarter and delivered a gain of £7.18m on these holdings.
11. 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, Neste has a strong line-up of low carbon energy products, including recycled biofuels. European countries are introducing tighter blending requirements for sustainable aviation fuel, of which Neste is the largest European producer.
12. 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 increased because of the increase in share prices of oil and gas companies in this quarter. The amount invested in passive equities has decreased during the quarter as a result of rebalancing. 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.
13. 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.
14. For this reason, this indicator does not provide the full picture of our exposure to fossil fuels, but forms only part of our risk monitoring. However as an indicator it should show a reducing trend in exposure over time.
15. A more thorough assessment of our equity investments is provided by LGPS Central's carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves. The metric for exposure to clean technology is less informative as most of our investment in this area is through infrastructure funds which are not covered by the analysis. This analysis confirmed that our carbon footprint and fossil fuel and coal reserves are lower than the benchmark. The projection is that as we implement our long term investment strategy that these figures will reduce reflecting a reduction of risk.
16. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes five specific investments – the Renewables Infrastructure Group, Impax Environmental, and four renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund, Langar Lane Solar Farm and the LGPS Central Infrastructure fund where the first investment is in a renewable energy infrastructure fund.
17. 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.
18. It can be seen that the Fund's investments in Sustainable Equities and Renewable Energy now significantly exceed 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.
19. 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

20. 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 at the Pension Fund Committee in the summer to reduce UK equities to 35% of the fund which will be reflected in the Core Index portfolio. This will be a gradual change over the rest of the year.

	30 September 2021			30 June 2021	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	535,290	37.4%	35%	591,537	38.7%
Overseas Equities:	896,493	62.6%	65%	936,835	61.3%
North America	303,454	21.2%	20%	362,183	23.7%
Europe	248,751	17.4%	20%	228,291	14.9%
Japan	132,155	9.2%	10%	123,542	8.1%
Pacific Basin	125,882	8.8%	10%	132,567	8.7%
Emerging Markets	86,251	6.0%	5%	90,252	5.9%
Cash	0	0.0%	0%	0	0.0%
Total	1,431,783			1,528,372	

21. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	-160	70,000	-70,160
Overseas Equities			
North America	73	70,000	-69,927
Europe	20,000		20,000
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	19,913	140,000	-120,087

There majority of the purchases and sales in the quarter reflected the rebalancing activity in the quarter as we reduce our passive holdings and our allocation to the UK.

Schroder Investment Management Portfolio

22. 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 2021			30 June 2021		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	917,028	45.3%	45.0%	950,088	48.7%	
Overseas Equities	1,090,026	53.9%	54.5%	979,934	50.3%	
North America	646,957	32.0%	32.1%	566,401	29.1%	
Europe	141,621	7.0%	6.9%	146,870	7.5%	
Japan	68,903	3.4%	3.5%	81,014	4.2%	
Pacific Basin	55,039	2.7%	2.6%	59,117	3.0%	
Emerging Markets	96,152	4.8%	5.4%	90,437	4.6%	
Global Small Cap	81,354	4.0%	4.0%	36,095	1.9%	
Cash	15,431	0.8%	0.5%	18,952	1.0%	
Total	2,022,485			1,948,974		

23. The table below summarises transactions within the quarter.

Sector	Purchases	Sales	Net Purchases
	£000	£000	£000
UK Equities	35,279	64,232	-28,953
Overseas Equities			
North America	105,460	46,205	59,255
Europe	24,327	32,690	-8,363
Japan	10,730	28,532	-17,802
Pacific Basin	0	2,776	-2,776
Emerging Markets	11,115	0	11,115
Global Small Cap	44,445		44,445
Totals	231,356	174,435	56,921

LGPS Central

24. 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 September 2021		30 June 2021	
	Portfolio		Portfolio	
	£000	%	£000	%
UK Passive	10,314	1%	10,091	1%
Global equity	41,165	5%	40,238	5%
EM equity active	130,025	16%	135,753	17%
Corporate bonds	321,148	39%	322,589	41%
Gilts	204,174	25%	208,989	27%
Private Equity	11,855	1%	12,839	2%
Infrastructure	1,645	0.2%	1,459	0%
Credit	100,011	12%	50,320	6%

Cash	58	0%	52	0%
Total	820,395		782,330	

25. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	5,482	4,734	748
Corporate Bonds	0		0
Equities			
UK	0	0	0
Emerging Markets	0		0
Global	0		0
Private Equity	-2,532		-2,532
Infrastructure	374		374
Credit	50,000		50,000
Totals	53,324	4,734	48,590

During the quarter the Fund invested an additional £50m to the new MAC (Multi-Asset Credit) fund. A further £75m was committed to LGPS Central's new Infrastructure fund during the quarter. £45m of last quarter's commitment has already been committed by LGPS Central to a KKR Infrastructure fund. The committed capital will be drawn over the next few years.

Abrdn (previously Aberdeen Standard Investments)

26. 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
08/06/2021	Site 1B, Nursling, Southampton	Purchase
07/07/2021	Unit 4, Brooke Park, Handforth	Lease
07/07/2021	Unit 3C, Isabella Court Millenium Business Park, Mansfield	Surrender of Lease
29/07/2021	Unit 3C, Isabella Court Millenium Business Park, Mansfield	Lease
29/07/2021	Unit B1, Brooke Park, Handforth	Engrossment Licence
01/09/2021	Bakkavor Foods, Brookside Way, Huthwaite	Rent Review
29/09/2021	Units 2A and 2B Bagshot Retail Park	Deed of Variation

This schedule includes the purchase of a logistics warehouse in Southampton that was inadvertently omitted last quarter.

Specialist Portfolio

27. 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 2021		30 June 2021	
	£000	%	£000	%
Private Equity	257,300	18.0%	244,300	17.6%
Infrastructure	351,100	24.6%	344,800	24.8%
Credit	72,300	5.1%	50,500	3.6%
Property Funds	141,000	9.9%	138,400	10.0%
Aegon DGF	322,000	22.6%	306,000	22.0%
Equity Funds	282,500	19.8%	306,600	22.0%
Total	1,426,200		1,390,600	

28. The table below summarises transactions within the quarter.

Sector	Purchases	Sales	Net Purchases
	£000	£000	£000
Private Equity	-672	3,488	-4,160
Infrastructure	2,713	227	2,486
Credit	18,400		18,400
Property Funds	624	538	86
Aegon DGF	15,000		15,000
Equity Funds	-73	34,351	-34,424
Totals	35,992	38,604	-2,612

29. There were increased investments in Property debt, the Aegon DGF, and a UK Smaller Companies fund was sold and the proceeds reinvested in the Schroders Global Small Cap 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, 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> .

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 (principally Shell, Rio Tinto, ArcelorMittal, National Grid, SSE and Anglo American). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. An officer attended the LAPFF business meeting on 14th July 2021. This was reported to committee in the November 2021 meeting.

34. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Officers attended the PLSA (Pensions & Lifetime Savings Association) ESG conference and Officers and Members attended LGPS Central Responsible Investment Summit. Officers worked with LGPS Central to produce the Climate Risk report which was presented to the last committee meeting.
35. In September Members attended a full day Climate Risk Workshop to enable Members to review the rationale for the Pension Fund's current policy of engagement and ESG integration and consider possible additional options. During the day there were presentations to clarify the responsibilities of all the parties involved in looking after the Pension Fund and to provide an appreciation of the legal and regulatory risks and requirements. With the support of Patrick O'Hara from LGPS Central, who presented on a range of approaches, Members discussed various strategies for managing climate risk.
36. A number of officer meetings have been held to discuss the LGPS Central Infrastructure Fund which will include some investment in renewable energy generation. Other meetings were held to discuss the Sustainable Equities Fund which will be launched in the new year. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised. The Climate Risk Report and TCFD report was approved by Committee in November and the Climate Action Plan was reviewed at the same meeting.

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.

Name of Report Author: Tamsin Rabbitts

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

For any enquiries about this report please contact: Tamsin Rabbitts

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 23/11/2021)

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