

**9 September 2021**
**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 30 June 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 June 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 June 2021		Benchmark	31 March 2021		30 June 2020	
	£m	%		£m	%	£m	%
Growth	4,208	65.9%	60%	3,953	64.8%	3,653	66.7%
Income & inflation protection	1,001	15.7%	23%	954	15.6%	721	13.2%
Income only	632	9.9%	10%	588	9.6%	571	10.4%
Inflation only	306	4.8%	5%	295	4.8%	206	3.8%
Liquidity	241	3.8%	2%	313	5.1%	327	6.0%
	6,388	100.0%	<b>100%</b>	<b>6,102</b>	<b>100.0%</b>	<b>5,478</b>	<b>100%</b>

4. Within Income & inflation protection are investments in Infrastructure assets amounting to £346.2m or 5.4% of the fund. Including infrastructure commitments made but not drawn down

gives a total amount of 6.9% 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 June 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	%	
<b>UK Bonds</b>															
Gilts					209.0	27%	0.0	0%					209.0	3%	
Corporate Bonds							80.7	100%					80.7	1%	
					<b>209.0</b>	<b>27%</b>	<b>80.7</b>	<b>100%</b>					<b>289.7</b>	<b>5%</b>	
<b>Overseas Bonds</b>															
Corporate Bonds					322.6	41%	0.0	0%					322.6	5%	
					<b>322.6</b>	<b>41%</b>	<b>0.0</b>	<b>0%</b>					<b>322.6</b>	<b>5%</b>	
<b>Inflation Linked</b>											306.0	20%	306.0	5%	
<b>UK Equities</b>	591.5	39%	950.1	49%	10.1	1%					33.1	2%	1,584.8	25%	
<b>Overseas Equities</b>															
North America	362.2	24%	566.4	29%							0.8	0%	929.4	15%	
Europe	228.3	15%	146.9	8%							162.4	11%	537.6	8%	
Japan	123.5	8%	81.0	4%							110.3	7%	314.8	5%	
Pacific	132.6	9%	59.1	3%									191.7	3%	
Emerging Markets	90.3	6%	90.4	5%	135.8	17%					0.0	0%	316.5	5%	
Global	0.0	0%	36.1	2%	40.2	5%					0.0	0%	76.3	1%	
	<b>936.9</b>	<b>61%</b>	<b>979.9</b>	<b>50%</b>	<b>176.0</b>	<b>22%</b>					<b>273.5</b>	<b>18%</b>	<b>2,366.3</b>	<b>37%</b>	
<b>Private Equity</b>															
Infrastructure						12.8	2%					244.3	16%	257.1	4%
Credit						.5	0%					344.8	23%	346.3	5%
Property						50.3	6%					50.5	3%	100.8	2%
UK mandatel									351.4	68%			351.4	6%	
UK - Local									21.6	4%			21.6	0%	
UK Strategic Land									3.9	1%			3.9	0%	
Pooled - UK									28.1	5%	137.6	9%	165.7	3%	
Pooled - Overseas									111.1	22%	0.8	0%	111.9	2%	
									<b>516.1</b>		<b>138.4</b>	9%	<b>654.5</b>	<b>10%</b>	
<b>Cash/Currency</b>	0.0	0%	19.0	1%	0.1	0%	0.0	0%	0.0		141.0	9%	160.1	3%	
<b>Total</b>	<b>1,528.4</b>	<b>24%</b>	<b>1,949.0</b>	<b>31%</b>	<b>782.4</b>	<b>12%</b>	<b>80.7</b>	<b>1%</b>	<b>516.1</b>	<b>8%</b>	<b>1,531.6</b>	<b>24%</b>	<b>6,388.2</b>		
Previous Qtr	1,445.6	24%	1,840.5	30%	713.1	12%	102.8	2%	487.9	8%	1,512.7	25%	6,102.6		

6. The Fund investments have increased by £285.6 million (4.7%) since the previous quarter as the market has continued to recover. Fund investments have increased by £910.0 million (16.6%) over the last 12 months. Valuations at 30 June 2020 were only just starting to recover from the market impact of the Covid-19 pandemic.

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

Summary Fund Account	Q1	Full Year
	2021/22	2020/21
	£000	£000
Employer contributions	(37,018)	(201,395)
Member contributions	(8,708)	(49,638)

Transfers in from other pension funds	(1,266)	(5,580)
Pensions	46,215	179,425
Commutation of pensions and lump sums	9,351	31,607
Lump sum death benefits	2,520	5,237
Payments to and on account of leavers	2,660	13,086
<b>Net (additions)/withdrawals from dealings with members</b>	<b>13,754</b>	<b>(27,258)</b>
<b>Administration Expenses</b>	<b>674</b>	<b>2,692</b>
<b>Oversight &amp; governance expenses</b>	<b>(256)</b>	<b>1,804</b>
Investment Income	(1,435)	(84,822)
Profits & losses on disposals & changes in value	(968,164)	(988,631)
Taxes on income	110	172
Investment management expenses	91	4,370
<b>Net Returns on Investments</b>	<b>(969,398)</b>	<b>(1,073,281)</b>
<b>Net (increase)/decrease in net assets</b>	<b>(955,226)</b>	<b>(1,091,672)</b>

### 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 June 2021		31 March 2021		30 June 2020	
	£m	% of Fund	£m	%	£m	%
Schrodgers Fossil fuel	71.4	1.12%	56.4	0.92%	50.0	0.91%
Other Fossil fuel	84.4	1.32%	78.6	1.29%	68.9	1.26%
Total Fossil fuel	155.7	2.44%	135.0	2.21%	118.9	2.17%
Sustainable & Renewable	257.0	4.02%	160.3	2.63%	155.1	2.83%

10. In the most recent quarter the value of Fossil Fuel investments increased in absolute terms and as a proportion of the fund in both the Schrodgers portfolio and elsewhere in the fund. Schrodgers increased their sector holdings in the quarter and delivered a gain of £8.01m on these holdings.
11. Schrodgers 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. There was no change to the amount invested in these holdings. 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 e.g. 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 and provided a starting point against which we can monitor progress. 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 three renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund and Langar Lane Solar Farm.
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 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 last Pension Fund Committee 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 June 2021			31 March 2021		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	591,537	38.7%	35%	560,099	38.8%	
Overseas Equities:	936,835	61.3%	65%	880,637	60.9%	
North America	362,183	23.7%	20%	333,348	23.0%	
Europe	228,291	14.9%	20%	210,820	14.6%	
Japan	123,542	8.1%	10%	124,182	8.6%	
Pacific Basin	132,567	8.7%	10%	126,345	8.7%	
Emerging Markets	90,252	5.9%	5%	85,942	6.0%	
Cash	0	0.0%	0%	4,817	0.3%	
<b>Total</b>	<b>1,528,372</b>			<b>1,445,553</b>		

21. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	0	0	0
Overseas Equities			
North America	0	0	0
Europe	0	0	0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>

There were no purchases and sales in the quarter.

### Schroder Investment Management Portfolio

22. The table below summarises the valuation and compares it to Schrodgers' benchmark. The position at the end of the previous quarter is also shown.

	30 June 2021			31 March 2021		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	950,088	48.7%	49.1%	902,850	49.1%	
Overseas Equities	979,934	50.3%	50.4%	904,563	49.1%	
North America	566,401	29.1%	28.4%	516,819	28.1%	
Europe	146,870	7.5%	8.1%	127,417	6.9%	
Japan	81,014	4.2%	4.6%	81,501	4.4%	
Pacific Basin	59,117	3.0%	2.9%	56,976	3.1%	
Emerging Markets	90,437	4.6%	4.5%	87,457	4.8%	
Global Small Cap	36,095	1.9%	1.9%	34,393	1.9%	
Cash	18,952	1.0%	0.5%	33,084	1.8%	
<b>Total</b>	<b>1,948,974</b>			<b>1,840,497</b>		

23. The table below summarises transactions within the quarter.

<b>Sector</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Net Purchases £000</b>
UK Equities	32,931	17,426	15,505
Overseas Equities			
North America	29,051	28,460	591
Europe	34,632	23,243	11,389
Japan	3,552	3,228	324
Pacific Basin	201	70	131
Emerging Markets	0	0	0
Global Small Cap	0		0
<b>Totals</b>	<b>100,367</b>	<b>72,427</b>	<b>27,940</b>

### 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 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.

	<b>30 June 2021</b>		<b>31 March 2021</b>	
	<b>Portfolio £000</b>	<b>%</b>	<b>Portfolio £000</b>	<b>%</b>
UK Passive	10,091	1%	9,576	1%
Global equity	40,238	5%	37,718	5%
EM equity active	135,753	17%	116,098	16%
Corporate bonds	322,589	41%	315,508	44%
Gilts	208,989	27%	205,032	29%
Private Equity	12,839	2%	9,885	1%
Infrastructure	1,459	0%		
Credit	50,320	6%	19,205	3%
Cash	52	0%	46	0%
<b>Total</b>	<b>782,330</b>		<b>713,068</b>	

25. The table below summarises transactions within the quarter.

<b>Sector</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Net Purchases £000</b>
<b>Bonds</b>			
Gilts	36,706	35,985	721
Corporate Bonds	0		0
<b>Equities</b>			
UK	0	0	0
Emerging Markets	15,000		15,000
Global	0		0
<b>Private Equity</b>	567		567
<b>Infrastructure</b>	1,459		1,459
<b>Credit</b>	30,000		30,000
<b>Totals</b>	<b>83,732</b>	<b>35,985</b>	<b>47,747</b>

During the quarter the Fund invested an additional £15m in Emerging Market Equities and £30m to the new MAC (Multi-Asset Credit) fund. £60m was committed to LGPS Central's new

Infrastructure fund during the quarter. £15m of this has already been committed by LGPS Central to a renewable energy fund. The committed capital will be drawn over the next few years.

### Aberdeen Standard Investments (ASI)

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
27/04/2021	Unit 3B Isabella Court, Mansfield	Lease agreement
04/05/2021	Unit 4, Brooke Park, Handforth, Cheshire	Lease
10/05/2021	Motorline Dealership Site, The Drive, Gatwick Road, Crawley	Rent Review
02/06/2021	Land on the North Side of Woodthorpe Road, Ashford	Promotion Agreement
08/06/2021	Bridlesmith House, Bridlesmith Gate, Nottingham	Wayleave Agreement

### 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 June 2021		31 March 2021	
	£000	%	£000	%
Private Equity	244,300	17.6%	233,400	17.4%
Infrastructure	344,800	24.8%	330,100	24.6%
Credit	50,500	3.6%	48,200	3.6%
Property Funds	138,400	10.0%	135,500	10.1%
Aegon DGF	306,000	22.0%	295,300	22.0%
Equity Funds	306,600	22.0%	298,000	22.2%
<b>Total</b>	<b>1,390,600</b>		<b>1,340,500</b>	

28. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-4,517	1,696	-6,213
Infrastructure	7,943		7,943
Credit			0
Property Funds		0	0
Aegon DGF			0
Equity Funds			0
<b>Totals</b>	<b>3,426</b>	<b>1,696</b>	<b>1,730</b>

29. There were increased investments in listed infrastructure and the Capital Dynamics Clean Energy 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, Exxon, ArcelorMittal, National Grid, Tesco and Hanwha). 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 14<sup>th</sup> July 2021. This will be 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. 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 develop a Sustainable Equities Fund. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised. The Climate Stewardship Plan was approved by Committee in April and the Climate Action Plan was reviewed.

## **Statutory and Policy Implications**

35. 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**

36. 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 17/08/2021)**

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