Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 10 March 2022 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

9 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

"That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

Note

If this is agreed, the public will have to leave the meeting during consideration of the following items.

EXEMPT INFORMATION ITEMS

10 Fund Valuation and Performance – Quarter 3 – Exempt Appendix

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

11 Fund Manager presentations

a) Aberdeen

b) Schroders

Notes

(1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.

(2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

(3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Jo Toomey (Tel. 0115 977 4506) or a colleague in Democratic Services prior to the meeting.

(4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.

(5) This agenda and its associated reports are available to view online via an online calendar - http://www.nottinghamshire.gov.uk/dms/Meetings.aspx

Nottinghamshire County Council

minutes

Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE
Date	Wednesday 2 February 2022 at 10.30 am

membership
Persons absent are marked with `A'

COUNCILLORS

Eric Kerry (Chairman)
André Camilleri (Vice Chairman)

Stephen Garner
Mike Introna
Sheila Place
Mike Pringle
Roger Upton
Lee Waters
Gordon Wheeler

NON-VOTING MEMBERS:

Nottingham City Council

Councillor Graham Chapman
Councillor Anne Peach
Councillor Zafran Khan – Apologies

District / Borough Council Representatives

Councillor David Lloyd, Newark and Sherwood District Council – Absent
Councillor Gordon Moore, Rushcliffe Borough Council – Apologies

Trades Unions

Mr A Woodward – Apologies
Mr C King – Apologies

Scheduled Bodies

Mrs Sue Reader – Apologies

Pensioners' Representatives

Vacancy x 2

Independent Adviser

William Bourne

Officers in Attendance

Nigel Stevenson	(Chief Executive's Department)
Keith Palframan	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Jo Toomey	(Chief Executive's Department)
James Harvey	(Chief Executive's Department)

1. MINUTES OF THE LAST MEETING HELD ON 9 DECEMBER 2021

The minutes of the last meeting held on 9 December 2021 were confirmed as a correct record for signing by the Chair.

2. APOLOGIES FOR ABSENCE

- Councillor Zafran Khan, Nottingham City Council
- Councillor Gordon Moore, Rushcliffe Borough Council
- Chris King, Union Representative
- Alan Woodward, Union Representative
- Sue Reader, Scheduled Bodies Representative

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

No interests were disclosed.

4. LOCAL GOVERNMENT PENSION SCHEME – ACTUARY REPORT AND PRESENTATION

Barry McKay from Barnett Waddingham, the Fund's Actuary delivered a presentation which informed the Committee of the process for the next triennial valuation commencing on 31 March 2022.

10:48 – Councillor Peach entered the meeting

RESOLVED 2022/001

That the presentation of the Scheme Actuary be accepted.

5. LOCAL GOVERNMENT PENSION SCHEME – GUARANTEED MINIMUM PENSION RECTIFICATION – UPDATE REPORT

The report updated the Committee on the progress of the Guaranteed Minimum Pension (GMP) rectification exercise following the completion of the reconciliation undertaken by Her Majesty's Revenue and Customers (HMRC). It also sought approval for the extension of additional resources to complete the remaining activity necessary to rectify records and community the outcome of the exercise with pensioners.

During discussion, Members:

- Enquired about the percentage of accuracy of the reconciliation that had been completed to date
- Sought reassurance that work was on track to be completed by December 2022 in line with the requested extension of the Project Manager post
- Noted that the work was compulsory and that the full liability, in respect of both under and over-payments, would not be known until the work had been completed

RESOLVED 2022/002

1. That the continuation of the GMP Rectification Project and allocation of the required resources to complete the calculation, communication, and rectification phases, as set out in the report, be approved, to ensure the Fund is able to meet its statutory requirements.

2. That the extension of the Project Manager post until December 2022 be approved.

3. That an update report on the rectification stage be submitted to the Committee once an assessment of the volume of cases requiring manual rectification has been established.

6. LOCAL AUTHORITY PENSION FUND FORUM ANNUAL CONFERENCE 2021

The report summarised the sessions that were held as part of the Local Authority Pension Fund Forum Annual Conference, which was held in December 2021.

RESOLVED 2022/003

1. That Pension Fund Committee should continue to attend appropriate conferences to enable them to be kept up to date with the main national topics relating to investments.

2. That any available copies of presentations be shared with the Committee.

7. PROXY VOTING

The report informed members of the voting of equity holdings in the third quarter of the 2021 calendar year as part of the Fund's commitment to the UK Stewardship Code.

During discussion:

- Members asked about the impact of the votes cast on behalf of the Fund and whether it would be impossible to incorporate further examples within the report, both where the Fund voted against a proposal and when it abstained.

RESOLVED 2022/004

That work continues to further develop the detail included within reports. .

8. PENSION FUND TREASURY MANAGEMENT STATEMENT 2022-23

The report set out the proposed Pension Fund Treasury Management Statement 2022-23, which Members were asked to consider.

During discussion:

- The process of providing updates on treasury management performance through 6-monthly monitoring reports was noted.
- Members asked about benchmarking returns to assess whether the fund was maximising its cash management.

RESOLVED 2022/005

That the Treasury Management Strategy Statement for 2022-23 (set out within the report) be agreed.

11:57 – Councillor Place left the meeting and did not return

9. CONFERENCES AND TRAINING

The report sought approval for attendance at conferences and training events in 2022/23.

RESOLVED 2022/006

That attendance at conferences and training as set out in the report be approved.

10. WORK PROGRAMME

RESOLVED 2022/007

That the work programme be agreed.

The meeting concluded at 12.02pm

CHAIR

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

10 March 2022

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

LOCAL GOVERNMENT PENSION SCHEME CONFERENCE, JANUARY 2022

Purpose of the Report

1. To report on the LGPS Governance Conference 2022.

Information and Advice

2. The Annual LGPS Governance Conference took place on the 20 and 21 January 2022. The Conference was opened by the LGPC Chair, Cllr John Fuller OBE. The Conference covered a range of topical items for the Local Government Pension Scheme, including McCloud, Divestment, Cyber risk, and 2022 valuations.

3. This year the conference was attended by Councillor Stephen Garner, Pension Committee Member, along with Jonathan Clewes Pension Administration Manager.

4. The following are the main highlights of the presentations given at the conference and represent the views of the presenters.

Day 1 – Welcome from the LGPC Chair, Cllr John Fuller OBE

5. The combined assets of the LGPS top £300 billion, which presents an opportunity to do good, while taking appropriate risk.

6. The LGPS has a role to play in the wider economy and it can show thought leadership in this area.
7. The upcoming challenges this year are likely to be inflation, McCloud/Sergeant and Goodwin.

8. It was acknowledged that investments are only a fraction of what funds need to cover, setting up the themes of the day – administration, governance, and compliance.

Pensions in the 21st Century

Charlotte O'Leary, Pensions for Purpose; Georgia Stewart, Tumelo; Facilitated by Jo Donnelly, SAB Secretariat

9. The background to the session was that lobbyists are becoming more active. Funds need to understand the views of their members, so they can respond to lobbyists.

10. The panellists discussed the need for greater engagement with members regarding investment choices and how Funds can use technology to gather information from their members on investment beliefs and concerns.

11. Animal welfare, human rights and climate change were the biggest concerns for investors based on recent data analysis from the Tumelo software.

12. Tumelo software enables investment platforms and pension providers to engage investors by giving a transparent view of the companies they own.

13. There was acknowledgement that Funds have the ability to change the investment market and influence companies and capturing this data can help facilitate that.

How the Scheme Advisory Board (SAB) Levy is spent

14. Cllr Roger Phillips, Scheme Advisory Board Chair, reported to the conference the work being undertaken by the SAB, as well as a review of its achievements.

15. Recognised the difficult environment for Pension Administration.
    - Continued Financial Pressures
    - Impact of dealing with COVID
    - Growing regulatory compliance
    - Increased requirement for good training and advice
    - Need to balance the needs of the LGPS

16. The SAB has traditionally had a strong and respected relationship with the Government, but there is room for improvement in this area at the moment.

17. Cllr Phillips noted the balance of the relationship between Pools and Funds. He made a number of deliberate comments about the Funds being the owners of the pools, not partners.

18. Specific emphasis was made of succession plans and staff development, identifying, and managing conflicts of interest and supporting Boards and Committees through training and development of skills.

19. There is a lot on the horizon –

    - McCloud,
    - Task Force on Climate- Related Financial Disclosures (TCFD).
    - Exit Cap v2,

- Cost Cap 2016 & 2020,
- The Pension Regulator Single Code of Practice
- 2022 valuations.
- GMP Equalisation
- Good Governance Framework for Pension Funds
- Pension Dashboard - will enable individuals to access their pensions information online, securely and in one place. This will hopefully support better planning for retirement.

20. Concern about delays on TCFD in the LGPS and its implementation lagging behind the private sector. This doesn't reflect well on Local Government's focus in this important area.

Divest Now?

Rianna Gargiulo, Friends of the Earth; Jill Davys, London Borough of Sutton; Facilitated by Bob Holloway, SAB Secretariat

21. Climate change risks make up 5 of the top 10 in the World Economic Forum's Risks Perception survey in 2021/22.

22. Rianna argued that divesting completely from fossil fuels is the easiest and most effective way for LGPS funds to take direct action on climate change. Engagement isn't working and immediate action is needed given the urgency highlighted by recent climate change reports.

23. Financially, Rianna presented that fossil fuel companies are valued based on extracting all resources in the ground, rather than what their carbon budget allows. This could lead to stranded assets.

24. Jill made the case that engagement still has time and scope to run.

25. Investors can engage with fossil fuel companies to encourage and promote change to greener energy. Disinvestment may result in another investor buying the asset who is less climate change conscious and relieves pressure on the company to change.

The Scheme member's view
Jon Richards, Assistant General Secretary, UNISON

26. The working relationship with SAB was praised for allowing constructive and critical challenge.

27. Jon appreciated how well Funds have handled the pandemic and remain committed to offering their services to members.

28. The LGPS is starting from a good place – well funded and taking ESG seriously (although "Social" is often forgotten when talking about ESG). Jon used the anecdote of recently completing the paperwork for his own pension and praised the LGPS as a model for good administration.

29. A desire for all pools to have member representation was strongly noted.

Panel session – Valuation 2022
Jeff Houston, Chair; Barry McKay (Barnett Waddingham); Jonathan Teasdale (Aon); Rob Bilton (Hymans Robertson); Michelle Doman (Mercer)

30. Asset returns have been strong since the last valuation, around 20-30% to 31 December 2021. While this is good news, higher inflation will increase the liabilities, offsetting some of these high returns.

31. Life expectancy is expected to continue to increase, but the rate of increase might be slowing down.

32. McCloud is likely to be explicitly allowed for at the 2022 valuation. There will be variation in the impact between employers, but generally, it is likely to be less than 1% of liabilities.

33. While Government Actuaries Department (GAD) have asked for consistency of assumptions and approach to allocating assets to academies, it was acknowledged that there still needs to be the ability to set these at Fund level, particularly the discount rate and longevity assumptions, to take account of local factors.

34. Climate change risk should be considered by all Funds to some degree at the 2022 valuation.

Day 2 – Cyber security and scams
Alison Murray, Aon; Chris Emmerson, Aon

35. Across all pension schemes (not just LGPS) the number of schemes impacted by a cyber incident has increased from 3% in 2019 to 7% in 2021. That would equate to around 7 LGPS funds being affected.

36. The new draft Single Code of Practice is clear that funds need to have cyber risk on their risk register.

37. A possible approach to cyber risk is to seek where the risk lies, put protections in place and then have a plan, with clear roles and responsibilities to solve a cyber risk event. Frequent review of the approach is also recommended.

38. A major source of cyber risk is the number of data transactions which occur. Funds should have a sufficient understanding of the controls which are in place for third parties such as administration providers.

39. Ensure Officers, Committee and Board members are not the weak link in your protection by offering comprehensive training.

McCloud and general outlook
Con Hargrave, Department of Levelling up, Housing and Communities

40. A White Paper on levelling up is expected in the first couple weeks of February.

41. The McCloud timetable has Regulations completed by the summer 2022 recess with final guidance published in winter 2022/23. It is likely that the remedy regulations will not come into force until October 2023 (instead of April 2023).

42. It was noted that the aggregations window is likely to be re-opened as part of the McCloud remedy.

43. Cost Control mechanism – the 2016 valuation is still being challenged due to inclusion of McCloud. There are discussions with Scheme Advisory Board (SAB) to explore how the SAB mechanism will be amended in light of the changes taking place in the HMT mechanism.

44. On the horizon: -

- Investments: Task Force on Climate-Related Financial Disclosures (TCFD),
- Next steps on pooling and banning of boycotts of foreign nations –
- Exit Pay reform: Government still committed, expect an LGPS consultation later in the year –
- Good Governance: DLUHC team expanding to look at this area –
- Other: Survivor benefit regulations (in light of recent legal challenges),
- Fair Deal and the 2019 consultations relating to strengthening pension protections on outsourcing.

Legal Update
Kirsty Bartlett, Squire Patton Boggs

45. The Pension Regulator (TPR) has issued a draft new Single Code of Practice which sets out proposed new governance standards for pension schemes. The new code is both a consolidation of 10 out of 15 existing codes of practice, as well as a significant update and extension of the existing codes.

46. The new code is the first phase of the TPR's efforts to both harmonise and modernise its codes of practice, with the ultimate aim of creating a code of practice appropriate to the needs of pension schemes today and in the future. The new code will cover 5 themes, and these are.

- funding and investment,
- administration,
- communication
- disclosure,
- reporting to the TPR.

47. The Single Code of Practice is expected to come into force in spring 2022. Funds will then have 12 months to complete their first Own Risk Assessment. It is unlikely to change much from the draft, so there is much which Funds can be doing to prepare, including 'gap' analysis.

48. New legislation on transfers and scams from Department for Work and Pensions (DWP) in effect from November 2021. Places more responsibility on Committee and Board members with transfers to non-public sector schemes being more arduous for administering authorities to verify.

49. There are red and amber flag criteria for administering authorities to follow. Where administrators do not have enough evidence to make a judgement, they need to refer members to the Money and Pensions Service..

50. If you are dealing with data outside the UK, ask questions and speak to a lawyer to avoid data protection issues

51. The current focus on simple Annual Benefit Statements for Defined Contribution schemes may be applied to Defined Benefit and the LGPS.

Stewardship code 2020
Claudia Chapman, Financial Reporting Council

52. The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. The Code comprises a set of 'apply and explain, principles for asset managers and asset owners, and a separate set of principles for service providers.

53. The Financial Reporting Council are asking LGPS funds to consider becoming signatories to the Stewardship code.

54. There are 12 principles, but the key ones for LGPS Funds are - Purpose and culture - Governance, resources, and incentives - Client and beneficiary needs - Monitoring managers and service providers.

55. They are looking for all assets under management to be covered by stewardship reporting for funds which are signatories.

56. Where pools control a large part of the assets, the Fund should still prepare the stewardship report, but the pool should feed into this report.

Investment outlook
Stephen Lee, Ninety-One Asset Management

57. The main theme is around the need to normalise post-Covid, which may be painful.

58. The recovery in 2021 was supported by loose monetary policy which may be tightened in 2022.

59. UK inflation might reach 6-7% and then moderate in the second half of this year, and interest rates expected to increase to just over 1% sooner rather than later. UK growth expected to be slightly ahead of previous expectations.

60. Growth in USA looks promising, but this is generally priced into the markets already.

61. China tightened credit last year, but now loosening as it focuses on growth stabilisation. However, there is potential exposure to Omicron which would apply downward pressure.

62. Enthusiasm for all things technology related is waning.

Closing remarks from the chair

63. The chair summarised the morning's messages, thanked the organisers for their work and looked forward to next year's event, with more delegates hopefully attending in person

Statutory and Policy Implications

64. 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/S

That the Nottinghamshire Pension Fund Committee notes the contents of the report.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:

Jonathan Clewes, Pensions Manager on 01159773434 or jon.clewes@nottscc.gov.uk

Constitutional Comments (22/02/2022KK)

65. Pursuant to the County Councils Constitution, the Nottinghamshire Pension Fund Committee has the delegated authority pursuant to Part 4 section 37 to consider the recommendations set out within this report.

Financial Comments (22/02/2022KP)

66. There are no financial implications arising from this report.

Nottinghamshire County Council

Report to Pension Fund Committee

10 March 2022

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

STRATEGIC ASSET ALLOCATION WORKING PARTY

Purpose of the Report

1. The Pension Fund Working Party meets twice a year or additionally where circumstances require and is open to all Pension Committee Members to attend. The purpose of the Working Party is to discuss key issues in more detail and to make recommendations to Pension Fund Committee. This report sets out details of the items discussed at the most recent meeting on 31 January 2022 and makes recommendations as follows:-

    1) Invest 5% of the Fund in the LGPS Central Global Sustainable Equity fund
    2) Change the equity benchmark used to monitor equity investments in the Specialist portfolio to a composite consisting of 50% FT Japan, 50% FT Europe inc. UK in GBP (sterling).
    3) Reallocate the Darwin investments to the Inflation category, specifically Darwin Leisure Property and Darwin Leisure Development Funds to real estate, and Darwin Bereavement Fund to infrastructure.
    4) Reduce the Strategic Asset Allocation (SAA) private equity allocation from 6.5% to 6.0% and raise listed Developed Market (DM) equity from 48.5% to 49%. Amend the final sentence of the Investment Strategy Statement (ISS) para 53 to allow commitments to exceed asset allocation.
    5) Amend the SAA Inflation category subclass allocations as shown in Table 1.
    6) Continue to monitor the exposure to the tobacco sector.

Information and Advice

2. The Working Party met on 31 January 2022. The agenda and attendees are listed in Appendices A and B, and details of the discussions and recommendations for each item are set out below.

Strategic Asset Allocation

3. The Working Party considered a report from William Bourne, independent adviser to the fund. In the last 12 months the market has continued its recovery after the COVID-19-related lockdowns. Officers have implemented last year's recommendations including a review of private assets. The Pension Fund Committee (PFC) has reviewed a second Climate Risk Report by LGPS Central (LGPSC).

4. The Fund reviews its strategic asset allocation annually to ensure it is appropriate. The report reviewed the Fund's SAA in the light of the current economic outlook and information provided by LGPSC and made the following recommendations.

Recommendation 1. Invest 5% of the Fund in the LGPSC Global Sustainable Equity fund.

5. In 2021, the PFC approved in principle a 5% allocation (approx. £320m) to a proposed LGPSC sustainable fund. LGPSC has now designed and procured three external managers for this fund.

Recommendation 2. Change the equity benchmark for the Specialist portfolio to a composite consisting 50% FT Japan, 50% FT Europe inc. UK in GBP.

6. Following various investment decisions and pooling implementations the only equity holdings remaining in the Specialist portfolio are the RWC funds. As their mandates invest exclusively in Japan and Europe (inc UK), the suggested equity benchmark is a more effective benchmark for monitoring purposes.

Recommendation 3. Reallocate the Darwin investments to the Inflation category, specifically Darwin Leisure Property and Darwin Leisure Development Funds to real estate, and Darwin Bereavement Fund to infrastructure.

7. Darwin's long-term aim of providing inflation-correlated income fits better in the Inflation than the Growth category.

Recommendation 4. Reduce SAA private equity allocation from 6.5% to 6.0% and raise listed DM equity from 48.5% to 49%. Amend the final sentence of ISS para 53 to allow commitments to exceed asset allocation.

8. The Fund invests in private funds for the most part through limited partnerships. The Fund commits an agreed amount (the commitment), which the manager calls as and when a new asset is purchased (the drawdown). It takes time to draw down commitments, and the manager may make distributions to investors before the close of the investment period. The amount invested is always therefore lower, often substantially so, than that committed. This proposal enables greater commitments to be made to Private Equity Funds with the objective of better matching the strategic asset allocation for this asset subclass.

Recommendation 5. Amend the SAA Inflation category subclass allocations.

9. Following volatility in the property market the inflation category is underweight. This enables a review of the allocation between the subclasses within this category. The following changes are recommended. These will take place over time reflecting the illiquidity of many of these assets.

10. Table 1

	Current	Proposed
Listed Infrastructure	2%	2.8%
Unlisted Infrastructure*	6%	7.0%
Commercial property	12%	9.8%
Other property	3%	2.8%
Index Linked Gilts	0%	0.0%
Aegon DGF	5%	5.6%
TOTAL	**28%**	**28%**

Climate Risk Considerations

11. In accordance with the LGPSC Climate Risk Report's recommendation 9 climate change considerations have been integrated into the advice and recommendations in the report. The progress made at COP26 towards a net zero carbon target was noted, though it is clear that this will require all countries to work together to get there by 2050. Even in the most positive scenario the world will still rely on fossil fuels to a greater or lesser extent to bridge the gap until renewables can take over.

12. There have been no developments in climate change science over the past twelve months which makes one particular scenario (e.g. a 1.5 or 2.0 degree rise) significantly more or less probable. LGPSC will review this in depth every three or so years, and any material change will be integrated into the SAA. LGPSC's reports demonstrate the Fund is managed in a way which mitigates climate risk and is consistent with a pathway to net zero.

Summary

13. The following table shows the current and proposed high level strategic asset allocations which are unchanged.

Table 2

Outcome	Asset Classes	31/12/2021 portfolio %	Long term SAA %	Proposed 2022 target %	Range %
Growth	Listed and Private equity	61.7	60.0	60.0	55-65
Inflation protection	Property, Infrastructure, Index Linked Aegon DGF	22.0	28.0	28.0	18-35
Income	Fixed Income	11.2	10.0	10.0	5-15
Liquidity	Cash, Aegon short term bonds	5.1	2.0	2.0	0-10

Review of tobacco investment

14. The Working Party considered a report from William Bourne, independent adviser to the fund. The report considered the Fund's weightings in tobacco-related investments, whether a financial case can be made for exclusion, whether a non-financial case can be made for exclusion, and the practical implications of such a decision. The legal and regulatory background was discussed.

15. The Fund's listed exposure to tobacco at 31 December 2021 is less than 0.5% of the Fund. Members noted and welcomed that this is a significant reduction on the 2% exposure held in 2017.

16. The current low valuations of tobacco companies and their expected inflation-correlated future dividend stream make it impossible to make a financial case for a blanket exclusion. This together with the low level of exposure to the sector mean there is no financial case for exclusion.

17. In order to make a non-financial case the Fund would have to meet the two Law Commission tests:
    - The decision does not involve a risk of significant financial detriment to the fund.
    - Trustees have good reason to think that scheme members would share the concern.

18. While the case can be made that there would be little risk of significant financial detriment from an investment perspective from exclusion, the cost of implementing this in the passive funds would be significant. However smoking is a legal activity and Members are aware of the proportion of smokers in Nottinghamshire with an element of this likely to be reflected in the membership of the pension fund. Under these circumstances more evidence would be required that scheme members would share the concern.

19. Finally, the practical and cost implications of such a decision were considered. The majority of the Fund's remaining exposure is through the market cap passive funds. The transition cost of moving these investments to alternative passive funds would be significant, but more importantly the ongoing management costs of the passive investments against a more expensive index would be considerable, especially relative to the scale of investments excluded. Moreover to introduce a formal exclusion across the Fund would require changes to some of the Fund's other investment arrangements at significant one off and ongoing costs, (including to some funds where there is no actual exposure to tobacco currently).

Recommendation 6. Continue to monitor the exposure to the tobacco sector.

20. Members acknowledged that under these circumstances it would not be possible to justify the costs and risks of an exclusion policy but wish to keep the Fund's exposure under review.

Climate risk training

21. Climate risk training was provided by LGPS Central. The topic of this year's training was the net zero commitment recently made by LGPS Central. This was a formal commitment to transitioning investment portfolios to Net Zero greenhouse gas emissions (GHG), using the Institutional Investor Group on Climate Change's ('IIGCC') Net Zero Investment Framework to

achieve Net Zero emissions across both internally and externally managed portfolios by 2050 (or sooner), focusing initially on Listed Equities, Corporate Bonds, Sovereign Bonds and Real Estate. In accordance with the objectives of the partner funds that own and invest through LGPS Central (including ourselves), the aim is to achieve a real reduction in GHG emissions rather than an avoidance of them.

22. The full statement can be found on LGPS Central's website.

Statutory and Policy Implications

23. 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.

RECOMMENDATIONS

It is recommended that Committee

1) Invest 5% of the Fund in the LGPSC Global Sustainable Equity fund
2) Change the equity benchmark used to monitor equity investments in the Specialist portfolio to a composite consisting 50% FT Japan, 50% FT Europe inc. UK in GBP.
3) Reallocate the Darwin investments to the Inflation category, specifically Darwin Leisure Property and Darwin Leisure Development Funds to real estate, and Darwin Bereavement Fund to infrastructure.
4) Reduce SAA private equity allocation from 6.5% to 6.0% and raise listed DM equity from 48.5% to 49%. Amend the final sentence of ISS para 53 to allow commitments to exceed asset allocation.
5) Amend the SAA Inflation category subclass allocations as shown in Table 1.
6) Continue to monitor the exposure to the tobacco sector.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 18/02/2022)

24. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 18/02/2022)

25. The financial implications are noted in the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

MEETING AGENDA

Nottinghamshire County Council

Meeting title: PENSION FUND WORKING PARTY MEETING

Date and time: Monday 31st January 2022, **11.00 a.m.**

Location: Rufford Suite

1. Strategic Asset Allocation – William Bourne
2. Review of Tobacco investment – William Bourne
3. Climate Risk training – LGPS Central

NOTTINGHAMSHIRE PENSION FUND COMMITTEE
WORKING PARTY ATTENDANCE SHEET

RUFFORD SUITE

MEETING HELD ON: MONDAY 31 January 2022 11:00

MEETING CLOSED AT: 13:36

COUNTY COUNCILLORS

Name	Signature	Name	Signature
Eric Kerry (Chairman)	Present	Andre Camilleri (Vice-Chairman)	Present
Gordon Wheeler	Present	Mike Introna	Present
Sheila Place	Present	Mike Pringle	Present
Roger Upton	Present	Lee Waters	Apologies
Stephen Garner	Present		

CITY COUNCILLORS

Name	Signature	Name	Signature
Graham Chapman	Present	Anne Peach	Present
Zafran Khan	Apologies		

DISTRICT COUNCIL REPRESENTATIVES

Name	Signature	Name	Signature
Councillor David Lloyd – Newark & Sherwood District Council		Councillor Gordon Moore – Rushcliffe Borough Council	Apologies

TRADE UNIONS

Name	Signature	Name	Signature
Mr A Woodward		Mr C King	Apologies

SCHEDULED BODIES

Name	Signature	Name	Signature
Sue Reader	Apologies		

PENSIONERS REPS

Name	Signature	Name	Signature

OTHER COUNCILLORS

Name (Block Caps)	Signature	Name (Block Caps)	Signature

OFFICERS

Name (Block Caps)	Signature	Name (Block Caps)	Signature
Jo Toomey		Nigel Stevenson	Apologies
Keith Palframan	Apologies	Tamsin Rabbitts	Present
Ciaran Guilfoyle		Sarah Stevenson	
Jon Clewes		Marj Toward	

OTHER ATTENDEES

Name (Block Caps)	Signature	Name (Block Caps)	Signature
William Bourne	Present		
Patrick O'Hara	For the RI presentation		

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne

25th February 2022

Market commentary

1. I 'called' the top of equity markets last June, suggesting that they were unlikely to rise further and there was scope for considerable downside. Over the ensuing six months, equity markets staggered on while economic growth slowed and bond yields rose. Since the New Year we have seen an acceleration both in the rise in bond yields and the swing away from tech and towards value stocks. Indices have therefore fallen by around 10%.

2. U.S. economic growth rebounded in the 4th quarter, but much of this came from companies rebuilding inventories. Growth elsewhere also exceeded expectations, but because of the Omicron variant, December and January data is weakening. **In general, economies have now reached or exceeded their 2019 levels of activity,** though the U.K. is a laggard in this respect.

3. The Russian invasion of Ukraine on 24th February was well anticipated, and apart from higher commodity prices has not at the time of writing affected investors' confidence much. However, second-order events clearly have the potential to upset markets considerably. In particular, **wars tend to be inflationary as they increase demand and reduce supply capacity**. The military (and governments) are less price sensitive than the private sector.

4. This comes on top of U.S. consumer inflation at the highest rate for over 30 years, 7.5% in January. The Bank of England expects U.K. inflation to peak at about 6% in April, before falling back to around 2%. Both banks are clearly on the warpath against inflation and have raised rates twice with the threat of more to come.

5. Bond yields have backed up considerably in anticipation of more rate rises. The U.K. 10-year bond is now trading at a yield of 1.44%, compared to a low of 0.11% in July 2020. The US equivalent trades at 1.96% but has not yet reached 2018 levels. **Higher bond yields are the pivot of the changes happening in markets**, as they affect the current valuation put on the future income stream deriving from all investments.

6. This is the main reason for a 15% fall in the US NASDAQ 'tech' index between mid-December and late January, despite better than expected earnings in many (but not all) cases. At the other end of the spectrum, cyclical stocks (e.g. energy, financials) have outperformed indices substantially.

7. **Almost all active managers underperformed in the quarter,** not just Schroders, because they have tended for ESG reasons to be underweight commodities and fossil fuels in particular. It is a reminder

that asking managers to take decisions for non-financial reasons is not without its risks.

8. Evergrande's (and other Chinese real estate developer) defaults have had little impact on broader credit markets, where spreads remain close to historic lows. For example, the non-investment grade bond spread over Treasuries is 7.3%, compared to 19.5% in March 2020 and 34% at the peak of the Global Financial Crisis. Asian corporate bond spreads have fallen since November, suggesting investors have confidence that the Chinese authorities are managing the situation effectively.

9. For some time now I have said that it remains hard to see a painless exit in the longer term, and markets seem to be cottoning on. **Central banks are tightening policy to ward off higher inflation, but the risk of a policy error is considerable.** Either political considerations mean they are too slow to react to inflation and it remains higher than the 2% target, or they tighten too harshly and tip western economies into recession.

10. **In the background, the trends are now more inflationary than otherwise**. Greater government involvement in resource allocation tends to drive higher inflation. The outbreak of war in the Ukraine can only exacerbate this. The fall in working age populations relative to dependents may drive up labour costs. Even the move to a carbon-free planet will involve substantial investment and a new allocation of resources, which often leads to inflation.

11. Against this, demand is likely to be subdued as higher energy and food prices act as a tax on western consumers, while technology continues to continue to drive costs down. **The swing factor in the short-term, however, remains the behaviour of central banks, and whether they can balance controlling inflation while maintaining some economic growth.**

12. My best judgement at the moment is that there is about a 75% chance that long term inflation stays below 4%. Under these scenarios, the Fund's funding ratio may slip slightly but should remain not too far from its current level. Even if there is a policy error leading to recession, while asset prices would fall, it is likely that liabilities would too.

13. **The most difficult scenario is one where inflation is sustained at 5% or more while growth is subdued – i.e. stagflation.** LGPS liabilities are indirectly linked to consumer inflation without a cap, and the only robust hedge, index-linked gilts, trade at a significant negative real yield - i.e. incur a large opportunity cost.

14. Despite the troubling events of the last few days, I do not advise any change to the Fund's long-term strategy. It is rarely right for long-term investors such as the Fund to react to short-term movements in markets. The Fund pursues a policy of investing across a diverse range of assets in order to mitigate risks including inflation, and lower returns from equity and bond markets generally. The actuary also incorporates a level of prudence when setting the discount rate and return target.

15. If markets fall sharply at the time of the next valuation on 31st March 2022, the funding level may be lower than in 2019, but in my estimation the Fund remains well positioned to pay pensions in full and on time.

Nottinghamshire County Council

Report to Pension Fund Committee

10 March 2022

Agenda Item: 7

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme.

Information

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.

3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users,

sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required

RECOMMENDATION/S

That the Committee considers whether any amendments are required to the Work Programme.

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact:
Jo Toomey, Advanced Democratic Services Officer
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Tel: 0115 977 4506

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (NS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

PENSION FUND COMMITTEE – WORK PROGRAMME (updated 25 February 2022)

Report Title	Brief summary of agenda item	Report Author
28 April 2022		
Pensions Administration – Tracing Service		Sarah Stevenson / Jon Clewes
Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Climate Stewardship Strategy		Tamsin Rabbitts
Treasury Management outturn 21/22	Summary of TM activity for year ended 31 March 2022	Ciaran Guilfoyle
9 June 2022		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and guest manager
14 July 2022		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Update on LGPS Central Ltd	Presentation from LGPS Central Ltd on developments in pooling and in the company	Keith Palframan
Annual Administration Performance Report		Jon Clewes

Pension Administration and transformation update report		Sarah Stevenson
To be placed		
Monitoring of the Fund Membership Death Process	Update report	Jon Clewes
Review of Work of the Pension Fund Committee and Pension Board		Marjorie Toward
Good governance project		Jon Clewes / Keith Palframan
McCloud Judgment update report		Jon Clewes
Results of GMP reconciliation		Jon Clewes
Pension Fund Review of Cyber Security – Pension Regulator Requirement		Sarah Stevenson / Jon Clewes

Nottinghamshire County Council

Report to Pension Fund Committee

10 March 2022

Agenda Item: 8

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE – QUARTER 3

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 31 December 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 31 December 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**	
	31 December 2021		**Benchmark**	**30 September 2021**		**31 December 2020**	
	£m	%		£m	%	£m	%
Growth	4,090	61.7%	60%	4,172	64.3%	3,803	63.7%
Inflation protection	1,458	22.0%	28%	1,345	20.7%	1,190	19.9%
Income	744	11.2%	10%	698	10.8%	713	11.9%
Liquidity	336	5.1%	2%	271	4.2%	263	4.4%
	6,628	**100.0%**	**100%**	**6,486**	**100.0%**	**5,969**	**100.0%**

4. Within Income & Inflation protection are investments in Infrastructure assets amounting to £363.4m or 5.5% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 7.8% of the fund. There is a long term target for investments in infrastructure to be 8.0% of the fund.

5. The table below shows the detailed breakdown by portfolio of the Fund as at 31 December 2021 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	434.6	33%	912.8	44%	0.0	0%					0.0	0%	1,347.4	**20%**
Overseas Equities														
North America	268.2	21%	709.5	34%							0.0	0%	977.7	15%
Europe	262.1	20%	152.0	7%							163.6	10%	577.7	9%
Japan	125.7	10%	64.8	3%							100.5	6%	291.0	4%
Pacific	125.5	10%	51.1	2%									176.6	3%
Emerging Markets	85.0	7%	91.3	4%	129.1	15%					0.0	0%	305.4	5%
Global	0.0	0%	83.8	4%	43.2	5%					0.0	0%	127.0	2%
	866.5	67%	**1,152.5**	55%	**172.3**	19%					**264.1**	16%	**2,455.4**	**37%**
Private Equity					12.2	1%					275.1	17%	287.3	**4%**
Inflation protection														
Property														
UK Commercial									388.1	68%			388.1	6%
UK Commercial - Local									35.5	6%			35.5	1%
UK Strategic Land									3.9	1%			3.9	0%
Pooled - UK									31.5	6%	158.0	10%	189.5	3%
Pooled - Overseas									113.6	20%	30.2	2%	143.8	2%
									572.6		**188.2**	12%	**760.8**	**11%**
Infrastructure					15.4	2%					348.0	22%	363.4	**5%**
Inflation Linked											333.9	21%	333.9	**5%**
Income														
UK Bonds														
Gilts					208.5	23%							208.5	3%
Corporate Bonds														
					208.5	23%							**372.5**	**6%**
Overseas Bonds														
Corporate Bonds					321.7	36%							321.7	5%
					321.7	36%							**321.7**	**5%**
Credit					159.7	18%					54.0	3%	213.7	**3%**
Liquidity														
Cash/Currency	0.0	0%	30.1	1%	0.1	0%	0.0		0.0		141.4	9%	171.6	**3%**
Short bonds							164.0	100%					164.0	2%
Total	**1,301.1**	20%	**2,095.4**	32%	**889.9**	13%	**164.0**	2%	**572.6**	9%	**1,604.7**	24%	**6,627.7**	
Previous Qtr Totals	1,431.8	22%	2,022.5	31%	820.4	13%	141.6	2%	529.6	8%	1,542.0	24%	6,487.9	

6. The Fund investments have increased by £139.8 million (2.2%) since the previous quarter as the market has continued to grow, if unevenly. Fund investments have increased by £525.1 million (8.6%) over the last 12 months.

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

Summary Fund Account	Q3 2021/22 £000	Full Year 2020/21 £000
Employer contributions	(109,974)	(201,395)
Member contributions	(32,571)	(49,638)
Transfers in from other pension funds	(5,450)	(5,580)
Pensions	139,352	179,425
Commutation of pensions and lump sums	26,126	31,607
Lump sum death benefits	5,649	5,237
Payments to and on account of leavers	7,519	13,086
Net (additions)/withdrawals from dealings with members	**30,651**	**(27,258)**
Administration Expenses	**703**	**2,692**
Oversight & governance expenses	**32**	**1,804**
Investment Income	(57,995)	(84,822)
Profits & losses on disposals & changes in value	(1,170,767)	(988,631)
Taxes on income	263	172
Investment management expenses	2,599	4,370
Net Returns on Investments	**(1,225,900)**	**(1,073,281)**
Net (increase)/decrease in net assets	**(1,194,514)**	**(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 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 trend will be much less smooth.

	Latest Quarter		**Previous Quarter**		**Previous Year**	
	31 December 2021		**30 September 2021**		**31 December 2020**	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	85.3	1.29%	85.7	1.32%	46.8	2.76%
Other Fossil fuel	70.0	1.06%	84.2	1.30%	67.6	1.14%
Total Fossil fuel	155.4	2.34%	170.0	2.62%	114.3	1.94%
Sustainable & Renewable	293.8	4.43%	291.3	4.49%	158.7	2.69%

10. In the most recent quarter the value of Fossil Fuel investments fell back slightly due mostly to market movements, and consequently also fractionally as the proportion of the Fund. Schroders returned a small proportion of last quarters gains on their Energy 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, Equinor, develops not only oil but gas, wind and solar energy.

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 decreased mainly because the passive holdings have reduced 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.

	31 December 2021			**30 September 2021**	
	Portfolio		**B/Mark**	**Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	434,553	33.4%	35%	535,290	37.4%
Overseas Equities:	866,554	66.6%	65%	896,493	62.6%
North America	268,245	20.6%	20%	303,454	21.2%
Europe	262,050	20.1%	20%	248,751	17.4%
Japan	125,694	9.6%	10%	132,155	9.2%
Pacific Basin	125,540	9.7%	10%	125,882	8.8%
Emerging Markets	85,025	6.5%	5%	86,251	6.0%
Cash	0	0.0%	0%	0	0.0%
Total	**1,301,107**			**1,431,783**	

21. The table below summarises transactions during the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
UK Equities		120,000	-120,000
Overseas Equities			
North America		60,502	-60,502
Europe			0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	180,502	-180,502

The 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.

	31 December 2021 Portfolio £000	%	B/Mark %	30 September 2021 Portfolio £000	%
UK Equities	912,784	43.6%	45.0%	917,028	45.3%
Overseas Equities	1,152,548	55.0%	54.5%	1,090,026	53.9%
North America	709,473	33.9%	32.1%	646,957	32.0%
Europe	152,027	7.3%	6.9%	141,621	7.0%
Japan	64,777	3.1%	3.5%	68,903	3.4%
Pacific Basin	51,103	2.4%	2.6%	55,039	2.7%
Emerging Markets	91,323	4.4%	5.4%	96,152	4.8%
Global Small Cap	83,845	4.0%	4.0%	81,354	4.0%
Cash	30,095	1.4%	0.5%	15,431	0.8%
Total	**2,095,427**			**2,022,485**	

23. The table below summarises transactions within the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
UK Equities	36,247	50,453	-14,206
Overseas Equities			
North America	69,992	61,809	8,183
Europe	16,218	9,924	6,294
Japan	4,039	4,008	31
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global Small Cap	0		0
Totals	**126,496**	**126,194**	**302**

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.

	31 December 2021 Portfolio £000	%	30 September 2021 Portfolio £000	%
UK Passive	0	0%	10,314	1%
Global equity	43,212	5%	41,165	5%
EM equity active	129,144	15%	130,025	16%
Corporate bonds	321,712	36%	321,148	39%
Gilts	208,456	23%	204,174	25%
Private Equity	12,235	1%	11,855	1%
Infrastructure	15,436	2%	1,645	0%
Credit	159,712	18%	100,011	12%

Cash	59	0%	58	0%
Total	**889,966**		**820,395**	

25. The table below summarises transactions within the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
Bonds			
Gilts	14,497	13,874	623
Corporate Bonds	0		0
Equities			
UK	0	10,643	-10,643
Emerging Markets	0		0
Global	0		0
Private Equity	380		380
Infrastructure	13,790		13,790
Credit	60,000		60,000
Totals	**88,667**	**24,517**	**64,150**

During the quarter the Fund invested an additional £60m to the new MAC (Multi-Asset Credit) fund. The passive UK equity fund was realised. Another £13.8m of the Infrastructure fund commitment has been drawn. The remaining 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
06/10/2021	Unit 02 Vertex Park, Emmersons Green, Bristol	Deed of Surrender
20/10/2021	Unit A, Brooke Park, Handforth	Reversionary lease
21/10/2021	Bridlesmith House, Bridlesmith Gate, Nottingham	Rent Waiver
05/11/2021	40/42 Bridlesmith Gate, Nottingham	Dilapidations agreement
09/11/2021	Pets at Home, Technology Drive, Rugby	Rent Review
16/11/2021	Finlay House, West Nile Street, Glasgow	Deposit Agreement
16/11/2021	Units 2A and 2B Bagshot Retail Park	Unilateral Undertaking
26/11/2021	4 Martin Close, Blenheim Industrial Estate, Nottingham	Purchase
07/12/2021	Greybrook House London	New lease
09/12/2021	Plot 6100, Cross Point, Ansty, Coventry	Settlement 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.

	31 December 2021		30 September 2021	
	£000	%	£000	%
Private Equity	275,100	18.8%	257,300	18.0%
Infrastructure	348,000	23.8%	351,100	24.6%
Credit	54,000	3.7%	72,300	5.1%
Property Funds	188,200	12.9%	141,000	9.9%
Aegon DGF	333,900	22.8%	322,000	22.6%
Equity Funds	264,100	18.0%	282,500	19.8%
Total	**1,463,300**		**1,426,200**	

28. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	9,161	4,201	4,960
Infrastructure	10,279		10,279
Credit			0
Property Funds	11,250		11,250
Aegon DGF			0
Equity Funds			0
Totals	**30,690**	**4,201**	**26,489**

29. There were new investments in listed Property, and listed Infrastructure. Additionally, two investments were recategorised which is reflected in the valuation table in paragraph 27. These were Cheyne Real Estate Credit fund £19m now categorised as Property instead of Credit and a listed Social Housing company £22m now categorised as Property rather than Infrastructure.

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. 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 Rio Tinto, BHP, National Grid, Roche 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 6th October 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. In October Members and officers attended a full day Responsible Investment event organised by LGPS Central. The event considered such issues as 'Does Engagement Make a Difference' and 'Net Zero' and 'Carbon Emissions Reporting'. In November there was a training for Members on the Climate Risk Report and TCFD report which were presented to the November committee meeting. A Property training was held for Members and included a session on Abrdn's commitment to net zero and some examples of how ESG risks were identified and dealt with in our property portfolio.

35. A number of officer meetings have been held to discuss the LGPS Central Global Sustainable Equity Fund including a session to 'meet' the managers of each sleeve. In December there was a briefing for Members on the fund by LGPS Central. 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

36. 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

37. 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 15/02/2022)

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