

11 March 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 31 December 2020.

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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 2020 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark was reviewed and changed early in 2019. This is a long-term target and it will take some years to achieve it.

	Latest Quarter		Long term	Previous Quarter		Previous Year	
	31 December 2020		Benchmark	30 September 2020		31 December 2019	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,566	59.8%	56%	3,169	57.1%	3,485	60.4%
Private	559	9.4%	12%	552	9.9%	510	8.8%
Property	633	10.6%	15%	683	12.3%	733	12.7%
Bonds							
Gilts	211	3.5%	2%	210	3.8%	190	3.3%
Other Bonds	680	11.4%	10%	677	12.2%	712	12.3%
Credit	56	0.9%	3%	47	0.8%		
Cash	263	4.4%	2%	213	3.8%	141	2.4%
	5,968	100%	100%	5,551	100%	5,770	100%

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £323.5m or 5.4% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 5.9% 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 31 December 2020 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					211.2	30%	0.0	0%					211.2	4%
Corporate Bonds							117.3	100%					117.3	2%
					211.2	30%	117.3	100%					328.5	6%
Overseas Bonds														
Corporate Bonds					328.7	46%	0.0	0%					328.7	6%
					328.7	46%	0.0	0%					328.7	6%
Inflation Linked											232.6	15%	232.6	4%
UK Equities	532.2	38%	866.6	50%	9.1	1%					55.7	4%	1,463.6	25%
Overseas Equities														
North America	317.3	23%	489.6	28%							1.2	0%	808.1	14%
Europe	205.8	15%	128.2	7%							141.6	9%	475.6	8%
Japan	122.8	9%	81.0	5%							125.1	8%	328.9	6%
Pacific	122.8	9%	56.4	3%									179.2	3%
Emerging Markets	84.6	6%	85.3	5%	104.9	15%					0.0	0%	274.8	5%
Global	0.0	0%			36.0	5%					0.0	0%	36.0	1%
	853.3	61%	840.5	49%	140.9	20%					267.9	18%	2,102.6	35%
Private Equity					9.8	1%					226.5	15%	236.3	4%
Infrastructure											323.5	21%	323.5	5%
Credit					10.0	1%					45.6	3%	55.6	1%
Property														
UK Commercial									332.9	67%			332.9	6%
UK Commercial - Local									21.4	4%			21.4	0%
UK Strategic Land									3.9	1%			3.9	0%
Pooled - UK									28.2	6%	133.5	9%	161.7	3%
Pooled - Overseas									112.2	23%	0.9	0%	113.1	2%
									498.6		134.4	9%	633.0	11%
Cash/Currency	4.8	0%	18.7	1%	0.3	0%	0.0	0%	0.0		239.6	16%	263.4	4%
Total	1,390.3	23%	1,725.8	29%	710.0	12%	117.3	2%	498.6	8%	1,525.8	26%	5,967.8	
Previous Qtr	1,253.1	23%	1,543.7	28%	667.8	12%	145.6	3%	549.5	10%	1,391.3	25%	5,551.0	

6. The Fund investments have increased by £416.8 million (7.5%) since the previous quarter as the market has continued to recover. Fund investments have increased by £197.5 million (3.4%) over the last 12 months.

7. The table below shows the Fund Account for 2020/21 to date along with the full year figures for 2019/20.

Summary Fund Account	Q2 2020/21 £000	Full Year 2019/20 £000
Employer contributions	(127,666)	(137,261)
Member contributions	(33,865)	(47,906)
Transfers in from other pension funds	(4,722)	(9,655)
Pensions	134,173	171,375
Commutation of pensions and lump sums	23,632	35,699
Lump sum death benefits	3,794	5,050
Payments to and on account of leavers	8,536	13,657
Net (additions)/withdrawals from dealings with members	3,882	30,959
Administration Expenses	136	2,176
Oversight & governance expenses	253	1,460
Investment Income	(46,633)	(130,410)
Profits & losses on disposals & changes in value	(494,735)	483,224
Taxes on income	144	247
Investment management expenses	2,229	4,995
Net Returns on Investments	(538,995)	358,056
 Net (increase)/decrease in net assets	 (534,724)	 392,651

Core Index Portfolio

8. 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 in the second quarter of 18/19 as part of a long term aim to bring our overseas developed market passive investments to be consistent with the regional allocation of the LGPS Central Overseas passive fund as agreed at the June 18 Pension Fund Committee. This will be a gradual change over time.

	31 December 2020		30 September 2020	
	Portfolio	B/Mark	Portfolio	
	£000	%	£000	%
UK Equities	532,241	38.3%	471,935	37.7%
Overseas Equities:	853,316	61.4%	776,392	61.9%
North America	317,277	22.8%	296,614	23.7%
Europe	205,820	14.8%	188,730	15.0%
Japan	122,762	8.8%	113,025	9.0%
Pacific Basin	122,840	8.8%	102,895	8.2%
Emerging Markets	84,617	6.1%	75,128	6.0%
	4,815	0.3%		
Cash			4,757	0.4%
Total	1,390,372		1,253,084	

9. 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
Totals	0	0	0

There were no purchases or sales this quarter.

Schroder Investment Management Portfolio

10. 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 2020			30 September 2020		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	866,564	50.2%	50.0%	750,105	48.6%	
Overseas Equities	840,427	48.7%	49.5%	764,631	49.5%	
North America	489,608	28.4%	28.9%	454,235	29.4%	
Europe	128,177	7.4%	8.3%	121,852	7.9%	
Japan	80,957	4.7%	4.7%	73,409	4.8%	
Pacific Basin	56,378	3.3%	3.0%	43,521	2.8%	
Emerging Markets	85,307	4.9%	4.6%	71,614	4.6%	
Cash	18,726	1.1%	0.5%	28,917	1.9%	
Total	1,725,717			1,543,653		

11. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	64,341	56,318	8,023
Overseas Equities			
North America	63,160	62,873	287
Europe	23,642	28,360	-4,718
Japan	3,432	3,271	161
Pacific Basin	1,152	128	1,024
Emerging Markets	0	0	0
Totals	155,727	150,950	4,777

LGPS Central

12. 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.

	31 December 2020		30 September 2020	
	Portfolio		Portfolio	
	£000	%	£000	%
UK Passive	9,117	1%	8,115	1%
Global equity	35,970	5%	32,530	5%
EM equity active	104,888	15%	93,113	14%
Corporate bonds	328,730	46%	316,824	47%
Gilts	211,206	30%	209,996	31%
Private Equity	9,753	1%	6,905	1%
Credit	9,998	1%		
Cash	287	0%	279	0%
Total	709,949		667,762	

13. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	1,852	1,107	745
Corporate Bonds	0		0
Equities			
UK	0	0	0
Emerging Markets	0		0
Global	0		0
Private Equity	797		797
Credit	10,000		10,000
Totals	12,649	1,107	11,542

Aberdeen Standard Investments (ASI)

14. 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
01/10/2020	Oast House, Spinningfield, Manchester	Rent concession
08/10/2020	Units 2a and 2c Bagshot Retail Park	Rent concession
13/10/2020	20-24 Kirby Street, London	Sale of property
15/10/2020	Queen Street, Cardiff	Temporary licence
18/11/2020	92-100 High Street, West Wickham	Temporary licence
26/11/2020	Unit B1, Brooke Park, Handforth, Cheshire	Rent concession
27/11/2020	Unit 2, Brooke Park, Handforth, Cheshire	Rent Review
15/12/2020	The Ivy Restaurant and Outdoor Seating Area, Spinningfields, Manchester	Lease re-gearing
18/12/2020	12 Maiden Lane, London	Deed of variation
18/12/2020	Sprucefield Centre, Lisburn, Northern Ireland	Sale of property
18/12/2020	Unit 2a, Retail Park, London Road, Bagshot	Rent concession
22/12/2020	Waitrose, Unit 1 Bagshot Retail Park	Rent concession

Specialist Portfolio

15. 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 2020		30 September 2020	
	£000	%	£000	%
Private Equity	226,500	17.6%	219,800	18.1%
Infrastructure	323,500	25.2%	325,900	26.9%
Credit	45,600	3.5%	46,500	3.8%
Property Funds	134,400	10.4%	133,900	11.0%
Kames DGF	232,600	18.1%	213,500	17.6%
Equity Funds	323,600	25.2%	272,700	22.5%
Total	1,286,200		1,212,300	

16. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-849	954	-1,803
Infrastructure	-2,916		-2,916
Credit			0
Property Funds	687	0	687
Kames DGF	0		0
Equity Funds			0
Totals	-3,078	954	-4,032

Responsible Investment Activity

17. 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.

18. 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>.

19. 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>.

20. LAPFF have engaged with a number of companies during the quarter (principally BHP, AngloAmerican, Glencore, Vale, Standard Chartered and HSBC). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF have also responded to consultations on forest risk commodities and the DWP consultation on taking action on climate risk. The detailed responses can be found on the LAPFF website. In addition a Climate Change Investment Policy Framework has been published. An officer attended the LAPFF business meeting on 7th October. This will be reported to committee in the April meeting.

21. 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 Annual conference which featured a number of sessions on responsible investment and climate risk. A number of officer meetings have been held to develop the LGPS Central Infrastructure Fund which will include some investment in renewable energy generation. Other meetings and a workshop discussed the development of a Sustainable Equities Fund. Officers attended an update on the Capital Dynamics Clean Energy Infrastructure Fund VIII. The Taskforce for Climate-Related Financial Disclosures (TCFD) report went to Committee in December.

Statutory and Policy Implications

22. 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) That members consider whether there are any actions they require in relation to the issues contained within the report.

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

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Constitutional Comments

23. 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 17/02/2021)

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