

10 September 2020**Agenda Item: 13****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 2020.

Information

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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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. This is the first Committee meeting since the Covid-19 lockdown in March. At that point the Investments and Treasury Management Team were required to work from home. Members can be assured that throughout the crisis the Pensions and Treasury Management team have remained fully operational. Treasury Management has continued on a daily basis for both the Pension Fund and the County Council and ensuring cashflow to pay pensions remains our top priority.
4. The impact of market movements and the performance of our investment managers at the peak of market turmoil was and continues to be monitored. We have continued to receive regular oversight and support from our Independent Adviser William Bourne. The Fund's investment strategy and asset allocation continue to be kept under consideration. However we are long term investors and market volatility in itself will have a limited impact on the Fund.
5. Officers have received regular updates from our property investment managers, and especially ASI. Unsurprisingly a number of the Fund's tenants have requested rent holidays or deferrals. ASI are making individual decisions on the merits of the relevant circumstances. In the current environment it is better to lose some rent than to lose the tenant.
6. Although there was no June Committee meeting, Members were kept informed of the Fund valuation and performance to the end of March with a circulated report. The information on the full year to 31 March 2020 will be reported at the AGM which will now be held in November. This report is for the quarter to the end of June.

7. The table below shows a summary of the total value of the investment assets of the Fund as at 30 June 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	
	30 June 2020		Benchmark	31 March 2020		30 June 2019	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,107	56.7%	56%	2,673	53.4%	3,343	59.8%
Private	546	10.0%	12%	529	10.6%	476	8.5%
Property	721	13.2%	15%	746	14.9%	738	13.2%
Bonds							
Gilts	213	3.9%	2%	208	4.2%	183	3.3%
Other Bonds	676	12.3%	10%	649	12.9%	683	12.2%
Credit	46	0.8%	3%	52	1.0%		
Cash	169	3.1%	2%	152	3.0%	164	2.9%
	5,478	100%	100%	5,009	100%	5,586	100%

8. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £321.1m or 5.9% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 6.5% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

9. The table below shows the detailed breakdown by portfolio of the Fund as at 30 June 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					212.7	32%	0.0	0%					212.7	4%
Corporate Bonds							157.6	100%					157.6	3%
					212.7	32%	157.6	100%					370.3	7%
Overseas Bonds														
Corporate Bonds					311.6	47%	0.0	0%					311.6	6%
					311.6	47%	0.0	0%					311.6	6%
Inflation Linked											206.2	15%	206.2	4%
UK Equities	485.7	39%	710.9	48%	8.4	1%					43.4	3%	1,248.4	23%
Overseas Equities														
North America	283.8	23%	441.3	30%							1.9	0%	727.0	13%
Europe	186.0	15%	129.5	9%							114.0	8%	429.5	8%
Japan	110.5	9%	71.3	5%							107.3	8%	289.1	5%
Pacific	102.1	8%	44.2	3%									146.3	3%
Emerging Markets	72.1	6%	74.3	5%	89.2	14%					0.0	0%	235.6	4%
Global	0.0	0%			31.4	5%					0.0	0%	31.4	1%
	754.5	61%	760.6	51%	120.6	18%					223.2	17%	1,858.9	34%
Private Equity					5.6	1%					219.9	16%	225.5	4%
Infrastructure											321.1	24%	321.1	6%
Property											45.9	3%	45.9	1%
UK Commercial														
UK Commercial - Local									431.6	73%			431.6	8%

UK Strategic Land								23.0	4%			23.0	0%
Pooled - UK								4.4	1%			4.4	0%
Pooled - Overseas								17.7	3%	130.9	10%	148.6	3%
								112.4	19%	1.0	0%	113.4	2%
								589.1		131.9	10%	721.0	13%
Cash/Currency	4.6	0%	12.2	1%	0.3	0%	0.0	0%	0.0	152.2	11%	169.3	3%
Total	1,244.8	23%	1,483.7	27%	659.2	12%	157.6	3%	589.1	11%	1,343.8	25%	5,478.2
Previous Qtr	1,110.5	22%	1,297.4	26%	504.9	10%	176.6	4%	610.5	12%	1,309.1	26%	5,009.0

NB the comparative total for LGPS Central relates to the Kames fixed income portfolio. The LGPS Central investments were previously spread across three portfolios, so last quarter's figures do not compare like with like. Transfers are identified in the analysis later in the report.

10. The Fund investments have increased by £469.2 million (9.4%) since the previous quarter. Fund investments have decreased by £107.5 million (-1.9%) over the last 12 months. This reflects the partial but uneven recovery of the market since the end of March.
11. The table below shows the Fund Account for 2020/21 to date along with the full year figures for 2019/20 (unaudited).

Summary Fund Account	Q1 2020/21 £000	Full Year 2019/20 £000
Employer contributions	(65,255)	(137,261)
Member contributions	(7,748)	(47,906)
Transfers in from other pension funds	(1,419)	(9,655)
Pensions	45,050	171,375
Commutation of pensions and lump sums	7,505	35,699
Lump sum death benefits	1,179	5,050
Payments to and on account of leavers	2,404	13,657
Net (additions)/withdrawals from dealings with members	(18,284)	30,959
Administration Expenses	70	2,176
Oversight & governance expenses	(106)	1,460
Investment Income	941	(130,410)
Profits & losses on disposals & changes in value	(27,842)	483,224
Taxes on income	60	247
Investment management expenses	(68)	4,995
Net Returns on Investments	(26,909)	358,056
Net (increase)/decrease in net assets	(45,229)	392,651

Core Index Portfolio

12. 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.

	30 June 2020			31 March 2020		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	485,703	39.0%	40.0%	448,123	40.3%	
Overseas Equities:	754,478	60.6%	59.5%	658,571	59.3%	
North America	283,845	22.8%	18.0%	232,906	21.0%	
Europe	186,035	15.0%	18.0%	156,686	14.1%	
Japan	110,457	8.9%	9.0%	98,405	8.9%	
Pacific Basin	102,077	8.2%	9.0%	83,946	7.6%	
Emerging Markets	72,064	5.8%	5.5%	60,543	5.5%	
Global	0	2.3%	0%	26,085	2.3%	
Cash	4,604	0.4%	0.5%	3,851	0.3%	
Total	1,244,785			1,110,545		

13. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	-9,808	0	-9,808
Overseas Equities			
North America	0	0	0
Europe	0	0	0
Japan			0
Pacific Basin			0
Emerging Markets			0
Global	-29,882		-29,882
Totals	-39,690	0	-39,690

The negative purchases reflect the transfer of the LGPS Central funds to the new LGPS Central portfolio created for reporting purposes this quarter.

Schroder Investment Management Portfolio

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

	30 June 2020			31 March 2020		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	710,900	47.9%	50.0%	592,841	45.7%	
Overseas Equities	760,617	51.3%	49.5%	678,458	52.3%	
North America	441,283	29.7%	28.9%	409,042	31.5%	
Europe	129,452	8.7%	8.3%	107,965	8.3%	
Japan	71,330	4.8%	4.7%	62,774	4.8%	
Pacific Basin	44,220	3.0%	3.0%	36,918	2.8%	
Emerging Markets	74,332	5.0%	4.6%	61,759	4.8%	
Cash	12,213	0.8%	0.5%	26,113	2.0%	
Total	1,483,730			1,297,412		

15. The table below summarises transactions within the quarter.

Sector	Purchases	Sales	Net Purchases
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	£000	£000	£000
UK Equities	82,068	20,432	61,636
Overseas Equities			
North America	466,296	503,698	-37,402
Europe	32,237	31,219	1,018
Japan	4,042	3,423	619
Pacific Basin	0		0
Emerging Markets	0	0	0
Totals	584,643	558,772	25,871

The significant purchases and sales in North American equities relate to the transition of the US investments in June into the new mandate.

LGPS Central

16. Following the transition of the Pension Fund's Corporate Bonds into the LGPS Central Global Corporate Bond Fund in February, together with the appointment of LGPS Central to manage gilts in May, LGPS Central now manage over £650m of the Pension Fund's investments. These assets will now be reported in a separate portfolio.
17. 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. In future quarters the position at the end of the previous quarter will also be shown.

	30 June 2020	
	Portfolio	
	£000	%
UK Passive	8,354	1%
Global equity	31,394	5%
EM equity active	89,240	14%
Corporate bonds	311,592	32%
Gilts	212,709	32%
Private Equity	5,639	1%
Cash	269	0%
Total	659,197	

18. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	54,416	53,999	417
Corporate Bonds	0		0
Equities			
UK	9,808	0	9,808
Emerging Markets	89,100		
Global	29,882		29,882
Private Equity	5,857		5,857
Totals	189,063	53,999	45,964

The purchases and sales of gilts reflect the rebalancing of the mandate immediately after transfer, plus some reinvestment of income.

All the other purchases represent movements into the portfolio from other portfolios.

Aberdeen Standard Investments (ASI)

19. The Committee is asked to note that approval was given in the last two quarters 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
16/01/2020	Kings Stables Road, Edinburgh	Collateral Warranty Agreement
06/02/2020	Unit 4 Richardson Way, Cross Point Business Park, Coventry	Rent Review
10/02/2020	Unit A, 20-24 Kirby Street, London	Reversionary lease
17/02/2020	South Side, First Floor, 20-24 Kirby Street, London	Licence to Underlet
20/02/2020	Unit 3B Isabella Court, Millennium Business Park, Mansfield	Rent Review
25/02/2020	Units 2A & 2B Bagshot Retail Park, Bagshot, Surrey	Agreement for Lease
25/02/2020	21 Leicester Street, Northwich	Contract for the sale of the premises
27/02/2020	Unit 4a Isabella Court, Millennium Business Park, Mansfield	Lease
27/02/2020	44 Bridlesmith Gate, Nottingham	Reversionary Lease
06/03/2020	14-22 Lands Lane, Leeds	Sale of property
13/03/2020	Unit 4, Brooke Park, Epsom Avenue, Handforth Dean	Deed of Variation
13/03/2020	20-24 Kirby Street and 99-103 Saffron Hill, Holborn, London	Wayleave Agreement
31/03/2020	Unit C2 Castlewood Business Park, South Normanton	Rent Review
28/04/2020	14-22 Lands Lane, Leeds	Deed of variation
05/05/2020	Sheepscar Way, Leeds	Rent Concession
13/05/2020	MK180 North Unit, Milton Keynes	Deed of variation
13/05/2020	44 Bridlesmith Gate, Nottingham	Lease
19/05/2020	Unit E, Grovebury Retail Park, Leighton Buzzard	Rent concession
19/05/2020	Units 1A, 1B and 1C The Drive, Gatwick Road, Crawley	Rent concession
22/05/2020	Unit 14, The interchange, Latham Road, Huntingdon	Lease
28/05/2020	Unit 4A Isabella Court, Millennium Business Park, Mansfield	Renewal lease
28/05/2020	Unit 3B Isabella Court, Millennium Business Park, Mansfield	Reversionary lease
18/06/2020	Unit C2 Castlewood Business Park, South Normanton	Rent concession
19/06/2020	Marks and Spencer PLC, Bagshot Retail Park, West Wickham	Rent concession
23/06/2020	North Side, Third Floor, 20-24 Kirby Street, London	Rent concession
23/06/2020	Homebase, Woodgate Drive, Streatham	Rent concession
23/06/2020	Technology Retail Park, Rugby	Rent concession

Specialist Portfolio

20. 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 2020		31 March 2020	
	£000	%	£000	%
Private Equity	219,900	18.5%	218,300	18.2%
Infrastructure	321,100	26.9%	311,700	26.0%
Credit	45,900	3.9%	52,400	4.4%
Property Funds	131,900	11.1%	135,800	11.3%
Kames DGF	206,200	17.3%	187,200	15.6%
Equity Funds	266,600	22.4%	295,100	24.6%
Total	1,191,600		1,200,500	

21. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	3,878	547	3,331
Infrastructure	7,216		7,216
Credit			0
Property Funds	537	843	-306
Kames DGF	0		0
Equity Funds	-79,100		-79,100
Totals	-67,469	1,390	-68,859

The negative purchase in equities is the net position of a small new investment and the transfer of the LGPS Central Emerging Markets Fund to the new LGPS Central portfolio. The Private Equity purchases are also net of a movement to the LGPS Central portfolio

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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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 25/8/2020)

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