



REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT

WORKING PARTY

Purpose of the Report

1. The Pension Fund Working Party meets twice a year 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 19 September 2017 and makes recommendations
 - a. To maintain the current investment strategy
 - b. To revise the target for the Kames Capital Fixed Income mandate
 - c. To revise the geographical area and financial limit for the Local Property Fund
 - d. To allocate an additional £10m to the Local Property Fund

Information and Advice

2. The Working Party Agenda is set out in Appendix A. Details of the discussions and recommendations for each item are set out below.

Strategic Choices in a Low Return World

3. The funds Independent Adviser, William Bourne, set out his views on likely future returns across the funds main asset classes in the short and medium term. The main concern is that returns over this period may be below that received over the last few years and may be below that estimated by the Actuary at the recent fund valuation as the amount required to continue to reduce the deficit.
4. The Working Party considered 2 options, either to accept possible lower returns in the short term or to choose to invest in more 'non-traditional' assets to achieve possible higher returns, albeit at a greater risk and probably at a higher fee.
5. After discussion it was proposed that the fund continues to only take sufficient risk to meet the investment return target as set out in the Investment Strategy Statement (ISS). The fund has a strong track record of delivering good returns over the long term and as a long term investor this is the approach that we should continue to take.
6. Also include in the report was a review of a proposal to revise the target for the Kames Capital Fixed Income mandate from the current 0.75% above benchmark to 0.40%. The rationale behind the proposal is that Kames cannot achieve the current benchmark without

increasing the risk. After discussion it was agreed the target should be revised, with a review after 12 months. This is consistent with the Funds policy of being a long term, low risk investor.

Mapping of NCC assets to LGPS Central proposed sub funds

7. LGPS Central have issued their proposed list of initial investment funds, based on a review of the range of investments currently held by all the funds in the pool. The proposed sub-funds are designed as a compromise to try and meet these needs but inevitably there will need to be some changes to each funds asset allocation.
8. The funds Independent Adviser has undertaken a mapping exercise, attempting to match the current asset allocation to proposed funds in LGPS Central. The aim is to ensure Nottinghamshire Pension Fund can continue to achieve the required returns, not increase its risks and maintain the diversification we currently have. In most cases there is a good match for our current assets, however William highlighted a number of areas where he had concerns. These concerns have been raised with LGPS Central staff and further discussions will take place to try and ensure the investment offering matches the requirements of the Nottinghamshire Pension Fund.
9. The outcome of the discussions and any impact on the asset allocation will be reported to a future meeting of this Committee.

Markets in Financial Instruments Directive 2014/65 (“MiFID II”)

10. The Working Party considered a draft Committee report and agreed with the proposal to opt up the Pension Fund with our investment managers. Details of MiFID II and the implications for the Pension Fund are included in a full report elsewhere on the agenda.

Local Property Investments Initiative

11. The Pension Fund has allocated £25m to a local property initiative. The current guidelines are for any purchases to be within Nottinghamshire and be below £5m. As the main property fund only looks at possible purchases over £10m there is a gap where currently neither fund look at opportunities in the £5 - £10m range. Following discussion at the Working Party it was proposed to increase the geographical area to coincide with the area covered by all pooling partners, to increase the financial limit for individual purchases to £10m and to add a further £10m to this fund.

Statutory and Policy Implications

12. 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

13. Confirms the current approach to only incur sufficient risk to achieve the investment return required in the Investment Strategy Statement (ISS).
14. Approves the revision to the target for the Kames Capital Fixed Income as set out in the report, to be reviewed in 12 months.
15. Approves the changes to the geographical area and value for the Local Property Fund
16. Approves the allocation of a further £10m to the Local Property Fund.

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Constitutional Comments (SMG 30/10/2017)

17. The proposals set out in this report fall within the remit of this Committee.

Financial Comments (KRP 30/10/17)

18. 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