

Nottinghamshire Pension Fund Committee

Thursday, 09 June 2022 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

- 1 Appointment of Chair and Vice Chair
To note the appointment by Full Council on 12 May 2022 of Councillor Eric Kerry as Chairman and Councillor Mike Introna as Vice-Chairman of the Nottinghamshire Pension Fund Committee for the 2022/23 municipal year.
- 2 To note the membership of the Committee for the 2022/23 municipal year
Nottinghamshire County Council
Councillors Eric Kerry, Mike Introna, André Camilleri, John Clarke MBE, Eddie Cubley, Bethan Eddy, Stephen Garner, Sheila Place, Francis Purdue-Horan, Tom Smith and Lee Waters

Non-voting members
Nottingham City Council
Councillors Graham Chapman, Anne Peach and Zafran Khan

Nottinghamshire Local Authorities' Association
Councillor David Lloyd, Newark & Sherwood District Council and Councillor Gordon Moore, Rushcliffe Borough Council

Trades Union
Chris King and Alan Woodward

Scheduled Bodies
Sue Reader, Nottingham Trent University

Pensioners Representatives
Vacancy (x2)
- 3 Minutes of the last meeting held on 28 April 2022 5 - 8
- 4 Apologies for Absence

5	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
6	Independent Adviser's report	9 - 10
7	Work Programme	11 - 14
8	Fund valuation and performance	15 - 24

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	<p>Fund valuation and performance - exempt appendix</p> <ul style="list-style-type: none"> Information relating to the financial or business affairs of any particular person (including the authority holding that information);
11	<p>Fund Manager presentations</p> <p>a) Aegon Sustainable Diversified Growth Fund</p> <p>b) LGPS Central</p>

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>

Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE
Date	Thursday 28 April 2022 at 10.30 am

membership**COUNCILLORS**

Eric Kerry (Chairman)
André Camilleri (Vice Chairman)

Stephen Garner - Apologies
Mike Introna
Sheila Place
Mike Pringle

Roger Upton
Lee Waters - Apologies
Gordon Wheeler

SUBSTITUTE MEMBERS

Councillor Francis Purdue-Horan substituted for Councillor Lee Waters

OTHER MEMBERS PRESENT

Councillor Bruce Laughton

NON-VOTING MEMBERS:**Nottingham City Council**

Councillor Graham Chapman - Apologies
Councillor Anne Peach
Councillor Zafran Khan - Apologies

District / Borough Council Representatives

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

Trades Unions

Alan Woodward - Absent
Chris King

Scheduled Bodies

Sue Reader

Pensioners' Representatives

Vacancy x 2

Independent Adviser

William Bourne (in remote attendance)

Officers in Attendance

Nigel Stevenson	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Ciaran Guilfoyle	(Chief Executive's Department)
Jo Toomey	(Chief Executive's Department)

1. MINUTES OF THE LAST MEETING HELD ON 2 FEBRUARY 2022

The minutes of the last meeting held on 2 February 2022 were confirmed as a correct record for signing by the Chair.

2. APOLOGIES FOR ABSENCE

- Councillor Stephen Garner (other reasons)
- Councillor Lee Waters (other reasons)
- Councillor Graham Chapman (Nottingham City Council)
- Councillor Zafran Khan (Nottingham City Council)
- Councillor David Lloyd (Newark & Sherwood District Council)

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

Councillor Purdue-Horan stated that he was the County Council member appointed to the Nottinghamshire Pensions Board.

4. CLIMATE STEWARDSHIP PLAN UPDATE AND ENGAGEMENT REPORT

The report provided an updated Climate Stewardship Plan for 2022/23 and reported on engagement that had been undertaken as part of the 2021/22 Climate Stewardship Plan.

During discussion, Members:

- Asked about actions that had been undertaken by the Fund and its investment managers following media reports about Rio Tinto

RESOLVED 2022/015

That no further actions were required in relation to the 2022/23 Climate Stewardship Plan and the engagement undertaken as part of the 2021/22 Climate Stewardship Plan.

5. REVIEW OF PROGRESS ON THE CLIMATE ACTION PLAN

The report provided an update on progress against the climate action plan.

During discussion, Members:

- Noted the activities that had been completed and requested that pace be maintained with future actions

RESOLVED 2022/016

- 1) That the work undertaken on the climate action plan be endorsed.
- 2) That progress made against the Climate Action Plan be noted.
- 3) That no further actions were required in relation to the progress on the Nottinghamshire County Council Pension Fund Climate Action Plan

6. TREASURY MANAGEMENT OUTTURN 2021-22

The report provided members of the Committee with a review of the Pension Fund's treasury management activities for the year to 31 March 2022.

During discussions, Members:

- Asked about the arrangements in place for cash on deposit in banks and invested in money market funds
- Made comments about the balancing financial stewardship while giving consideration to climate matters

RESOLVED 2022/017

That the outturn statement as set out in the report be approved.

7. PROXY VOTING

The report informed members of the voting of equity holdings in the final quarter of the 2021 calendar as part of the Funds ongoing commitment to support best practice in corporate governance.

During discussions, Members:

- Noted the proxy voting activity undertaken on behalf of the Pension Fund and how it was used strategically in order to assert influence
- Asked about the process in place to follow-up on the impact of the votes cast

RESOLVED 2022/018

That no further actions were required in relation to the issues contained within the report.

8. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) BUSINESS MEETING

The report highlighted the key areas of discussion at the most recent LAPFF business meeting, which was held on 26 January 2022.

RESOLVED 2022/019

- 1) That no further actions were required in relation to the issues contained within the report
- 2) That the Nottinghamshire Pension Fund Committee supports LAPFF for the engagement work that it undertakes and continues its LAPFF membership.

9. WORK PROGRAMME

RESOLVED 2022/020

That the work programme be agreed.

The meeting concluded at 11.11am

CHAIR



Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne

25th May 2022

Market commentary

1. For twelve months I have warned of the potential for falls in equity and bond markets and said that it was hard to see a return to normality without pain somewhere. **Nearly three months on, both bond and many major equity markets have fallen substantially.**
2. Russia's war on Ukraine, as expected, has poured fuel on the inflationary fire. The impact has been most obvious in energy and food costs, but second order effects are beginning to come through too. Ukraine, Russia and Belarus are between them major producers of a range of commodities which are material to our lives: grain, fertiliser, oil, gas, lithium, and platinum. **As a result, consumer inflation levels are now at 10% in the US, 9% in the U.K. and 7% in Germany, the highest for forty years.** Japan is the major outlier where inflation remains in the 0 to 2% range.
3. After inventory build-up led to a better 4th quarter, the U.S. economy contracted by 0.4% in the 1st quarter of 2022. On the other side of the world, the Chinese economy is reeling from the combination of the wholesale lockdowns imposed to try and combat the latest COVID wave. 2022 growth may be no more than 4%, the lowest since the country emerged from Maoism in 1981.
4. Central banks have continued to raise interest rates, and U.S and U.K. rates are now at 1%. As a result, U.S. ten-year bond yields rose above 3%, within the 3% to 5% range where they have over the very long term normally traded. While they have fallen back to 2.8% at the time of writing, the era of negative nominal yields seems to have largely passed even in countries such as Japan.
5. Credit spreads (i.e. the difference between corporate and government bond yields) are widening, a warning indicator of trouble ahead. Investors are now being paid nearly 3.5% for AAA (the safest) corporate debt in the U.S. At the lowest end, junk bonds are yielding 13% compared to about 7% at the low in 2021.
6. As I pointed out last time, higher interest rates and bond yields are the pivot of the changes happening in markets. In the currency markets, they have led to a stronger US\$ and a weaker Japanese yen in particular. In equity markets, most tech stocks have been vulnerable to any hint that future earnings growth might slacken off.
7. Roughly 50% of the stocks in the U.S. NASDAQ index are down more than 50% from their 2021 highs, and 25% are down more than 75%. Large tech is not immune: Netflix lost over 40% of its value in just a few weeks; and Twitter has been bid for by Elon Musk, but at a price some 25% lower than its peak.

While the U.S. S&P index fell for seven weeks in a row and is down 18% from its end 2021 high, it is worth noting that many tech companies have met earnings forecasts, and that the march of tech has not slowed down. The falls are coming from valuation contraction rather than weaker earnings.

8. Value stocks, particularly those associated with energy production, continue their recovery relative to growth. For example, BP's earnings were at a ten-year high. Value generally has now recovered nearly half the ground lost relative to growth since 2009.
9. Crypto-currencies have also fallen by 50% (Bitcoin) or more since their end-year highs. The high-profile US\$40bn failure of Luna and its stablemate Terra has highlighted the flaws in the model. Digital money will continue to evolve but is likely to be more regulated in the future.
10. Closer to home, political threats continue to rumble round Europe. The conflict in Ukraine seems to be settling into a longer-term war in the eastern half of the country. This will add further to inflationary pressures, as the military are not price-conscious, as well as forming a less stable background for markets generally. The local elections in the U.K., and in particular Sinn Fein's position as the largest party in Northern Ireland point to more volatility too.
11. The social divisions in Europe were also laid clear in the French election, despite Macron's comfortable victory. The divide between the haves and have-nots mirror those made clear in the U.K.'s BREXIT referendum in 2016. Politicians will have to respond, and **the pendulum is likely to start swinging back towards labour (i.e. the workforce) and away from capital (i.e. shareholders and investors)**. That may well be a healthy move but will again add to inflationary pressures.
12. Higher food and energy prices act as a tax on discretionary spending, even without the Chancellor's tax rises. Military spending will consume a larger part of the government's expenditure. Unless the Federal Reserve makes an abrupt change in direction, as they did in late 2018, a recession seems inevitable.
13. **I therefore think the odds of stagflation, i.e. lower growth and sustained higher inflation, are now significantly higher than the 25% I ascribed in February.** This is a difficult environment for investors generally. Companies who are either running 'old' business models (e.g. high street retail) or who have high levels of debt are particularly vulnerable. Their assets and employees may be taken over by new owners (e.g. private equity), but shareholders will be losers. The newsagent, McColl's, problems are just an early example.
14. We should brace ourselves for lower returns over the next few years, and quite probably negative real returns. This combined with high inflation is uncomfortable for LGPS funds, because liabilities are indirectly linked to consumer inflation without a cap, and the only robust hedge, index-linked gilts, trade at a real yield of around minus 1.5 to 2% - i.e. incur a large opportunity cost.
15. The result may well be a lower funding level for a period, but I remind readers that the Fund's investment horizon is long, and periods of poorer performance are inevitable. The best defence is diversification: in this respect government and investment grade bond yields are returning towards a level when we may wish to at least consider a higher allocation as part of the Fund's strategy.

**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.

Other Options Considered

4. None.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

6. 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

E-mail: jo.toomey@nottsc.gov.uk

Tel: 0115 977 4506

Constitutional Comments (HD)

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

Financial Comments (NS)

8. 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 27 May 2022)

Report Title	Brief summary of agenda item	Report Author
21 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
September 2022		
Pensions Administration – Tracing Service		Sarah Stevenson / Jon Clewes
Fund Valuation & Performance – Qtr 1	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)	
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	<i>Review to be conducted during Autumn 2022 with the aim of an outcome by the end of the year, subject to any impacts which may need to be addressed as a result of Government response to the Good Governance in the LGPS proposals</i>	Heather Dickinson / 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

9 June 2022
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 March 2022.

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 March 2022 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 March 2022		Benchmark	31 December 2021		31 March 2021	
	£m	%		£m	%	£m	%
Growth	3,985	60.6%	60%	4,090	61.7%	3,953	64.8%
Inflation Protection	1,583	24.1%	28%	1,458	22.0%	1,249	20.5%
Income	699	10.6%	10%	744	11.2%	588	9.6%
Liquidity	311	4.7%	2%	336	5.1%	313	5.1%
	6,578	100.0%	100%	6,628	100.0%	6,102	100.0%

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next few years as commitments to less liquid investments are called.
5. Within Inflation Protection are investments in Infrastructure assets amounting to £390.8m or 5.9% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 8.7% of the fund. Following the decisions made by Pension Fund Committee in March 22 there is a long-term target for investments in infrastructure to be 9.8% of the fund.

6. The table below shows the detailed breakdown by portfolio of the Fund as at 31 March 2022 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	435.4	34%	924.6	45%	0.0	0%					0.0	0%	1,360.0	21%
Overseas Equities														
North America	262.9	21%	641.5	31%							0.0	0%	904.4	14%
Europe	243.0	19%	138.6	7%							153.3	10%	534.9	8%
Japan	121.2	10%	69.2	3%							84.7	5%	275.1	4%
Pacific	129.1	10%	54.5	3%									183.6	3%
Emerging Markets	82.9	7%	107.7	5%	117.1	14%					0.0	0%	307.7	5%
Global	0.0	0%	79.0	4%	42.1	5%					0.0	0%	121.1	2%
	839.1	66%	1,090.5	53%	159.2	19%					238.0	15%	2,326.8	35%
Private Equity					19.2	2%					278.8	18%	298.0	5%
Inflation protection														
Property														
UK Commercial									431.1	66%			431.1	7%
UK Commercial - Local									37.2	6%			37.2	1%
UK Strategic Land									32.7	5%			32.7	0%
Pooled - UK									34.5	5%	160.7	10%	195.2	3%
Pooled - Overseas									116.6	18%	32.3	2%	148.9	2%
									652.1		193.0	12%	845.1	13%
Infrastructure					32.5	4%					358.3	23%	390.8	6%
Inflation Linked											346.6	22%	346.6	5%
Income														
UK Bonds														
Gilts					193.7	23%							193.7	3%
Corporate Bonds					193.7	23%							193.7	3%
Overseas Bonds														
Corporate Bonds					299.2	35%							299.2	5%
					299.2	35%							299.2	5%
Credit					150.6	18%					55.6	4%	206.2	3%
Liquidity														
Cash/Currency	0.0	0%	50.5	2%	0.1	0%	0.0	0%	0.0		111.4	7%	162.0	2%
Short bonds							149.4	100%					149.4	2%
Total	1,274.5	19%	2,065.6	31%	854.5	13%	149.4	2%	652.1	10%	1,581.7	24%	6,577.8	
Previous Qtr Totals	1,301.1	20%	2,095.4	32%	890.0	13%	164.0	2%	572.5	9%	1,604.6	24%	6,627.6	

7. The value of the Fund's investments has decreased by £49.8 million (0.8%) since the previous quarter as the market responded to the Russian invasion of Ukraine. Over the last 12 months the value has increased by £475.2 million (7.8%).

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

Summary Fund Account	2021/22	2020/21
	£000	£000
Employer contributions	(165,539)	(201,395)
Member contributions	(51,127)	(49,638)
Transfers in from other pension funds	(5,859)	(5,580)
Pensions	186,770	179,425
Commutation of pensions and lump sums	34,297	31,607
Lump sum death benefits	6,945	5,237
Payments to and on account of leavers	8,893	13,086
Net (additions)/withdrawals from dealings with members	14,380	(27,258)
Administration Expenses	3,246	2,692
Oversight & governance expenses	1,531	1,804
Investment Income	(100,016)	(84,822)
Profits & losses on disposals & changes in value	(1,069,819)	(988,631)
Taxes on income	295	172
Investment management expenses	5,457	4,370
Net Returns on Investments	(1,164,083)	(1,073,281)
 Net (increase)/decrease in net assets	 (1,144,926)	 (1,091,672)

Sustainable investments and fossil fuels

9. 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.
10. 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 downward trend is unlikely to be smooth.

	Latest Quarter		Previous Quarter		Previous Year	
	31 March 2022		31 December 2021		31 March 2021	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	129.4	1.97%	85.3	1.29%	56.4	1.12%
Other Fossil fuel	82.1	1.25%	70.0	1.06%	78.6	1.29%
Total Fossil fuel	211.5	3.21%	155.4	2.34%	135.1	2.21%
Sustainable & Renewable	486.4	7.39%	293.8	4.43%	160.3	2.63%

11. In the most recent quarter the value of energy companies globally rose significantly due to market movements as the world reacted to the Russian invasion of Ukraine and the subsequent sanctions. This has had a corresponding impact on holdings within the Fund on both our Oil

and Gas holdings and our renewable energy investments as prices have increased in the sector. Schroders gained nearly £25m on their Oil and Gas holdings during the quarter.

12. 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.
13. 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. Despite the removal of Russian shares from the index and the write off of holdings in some of the Oil majors, the increased oil price has increased the value of our passive holdings. It should be noted that the Energy sector includes any renewable energy companies within the index, and that some oil and gas producers are also involved in the production of biofuels, hydrogen, wind power and solar energy, so have a renewables element. As a result of these two factors the figure for fossil fuels is likely to be overstated, and the figure for renewables understated.
14. 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.
15. For this reason, while the data provided should show the Fund's exposure to fossil fuels reducing over time, it can only be an indicative part of our risk monitoring and does not provide the full picture.
16. A more thorough assessment of the Fund's equity investments is provided by LGPS Central's 2021 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 the Fund's investment in this area is through infrastructure funds which are not covered by the analysis. The analysis confirmed that our carbon footprint and fossil fuel and coal reserves are lower than the benchmark. As the Fund implements our long term investment strategy these figures are projected to reduce, reflecting some further mitigation of climate change risk.
17. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes six specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, 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.
18. 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.
19. 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. A step change has occurred this quarter as the total of the Aegon Sustainable Diversified Growth fund has been recognised as sustainable in its entirety, following a year of careful monitoring. A further step change is anticipated next quarter following our investment of £320m in the LGPS Central Global Sustainable Active Equity Fund.
20. 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

21. 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).

	31 March 2022			31 December 2021		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	435,415	34.2%	35%	434,553	33.4%	
Overseas Equities:	839,065	65.8%	65%	866,554	66.6%	
North America	262,857	20.6%	20%	268,245	20.6%	
Europe	243,048	19.1%	20%	262,050	20.1%	
Japan	121,170	9.5%	10%	125,694	9.6%	
Pacific Basin	129,086	10.1%	10%	125,540	9.7%	
Emerging Markets	82,904	6.5%	5%	85,025	6.5%	
Cash	0	0.0%	0%	0	0.0%	
Total	1,274,480			1,301,107		

22. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities		1,519	-1,519
Overseas Equities			
North America			0
Europe			0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	1,519	-1,519

Schroder Investment Management Portfolio

23. 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 March 2022			31 December 2021		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	924,559	44.8%	45.0%	912,784	43.6%	
Overseas Equities	1,090,544	52.8%	54.5%	1,152,548	55.0%	
North America	641,504	31.1%	32.1%	709,473	33.9%	
Europe	138,607	6.7%	6.9%	152,027	7.3%	
Japan	69,171	3.3%	3.5%	64,777	3.1%	
Pacific Basin	54,530	2.6%	2.6%	51,103	2.4%	
Emerging Markets	107,687	5.2%	5.4%	91,323	4.4%	
Global Small Cap	79,045	3.8%	4.0%	83,845	4.0%	
Cash	50,526	2.4%	0.5%	30,095	1.4%	
Total	2,065,629			2,095,427		

24. The table below summarises transactions within the quarter.

Sector	Purchases	Sales	Net Purchases
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	£000	£000	£000
UK Equities	54,844	57,089	-2,245
Overseas Equities			
North America	79,364	120,384	-41,020
Europe	25,013	24,526	487
Japan	11,294	3,451	7,843
Pacific Basin	5,413	5,922	-509
Emerging Markets	30,330	7,965	22,365
Global Small Cap	0		0
Totals	206,258	219,337	-13,079

LGPS Central

25. 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 March 2022		31 December 2021	
	Portfolio		Portfolio	
	£000	%	£000	%
Global equity	42,112	5%	43,212	5%
EM equity active	117,113	14%	129,144	15%
Corporate bonds	299,247	35%	321,712	36%
Gilts	193,725	23%	208,456	23%
Private Equity	19,243	2%	12,235	1%
Infrastructure	32,500	4%	15,436	2%
Credit	150,585	18%	159,712	18%
Cash	89	0%	59	0%
Total	854,614		889,966	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	23,012	22,300	712
Corporate Bonds	0		0
Equities			
UK	0		0
Emerging Markets	0		0
Global	0		0
Private Equity	5,091		5,091
Infrastructure	17,057		17,057
Credit			0
Totals	45,160	22,300	22,860

Another £17.1m of the Infrastructure fund commitment has been drawn. A further commitment was made during the quarter. The remaining committed capital will be drawn over the next few years.

Abrdn (previously Aberdeen Standard Investments)

27. 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
14/01/2022	Finlay House, West Nile Street, Glasgow	Assignment and Variation
17/01/2022	Chantry Court, Bristol	Purchase
17/01/2022	Concorde Park, Fareham	Purchase
17/01/2022	121-139 Queen Street, Cardiff	Deed of Assignment of Arrears
23/02/2022	Greybrook House, Brook St, London	Deed of Variation to existing lease
23/02/2022	21 Leicester Street, Northwich	Contract for the sale of the premises
08/03/2022	Unit 1 Technology Drive, Rugby	Rent review
22/03/2022	Unit 6100 Richardson Way, Crosspoint Business Park, Coventry	Section 106 Agreement
22/03/2022	Concorde Park, Segensworth, Fareham	Collateral Warranties
23/03/2022	Suite 301 Bridlesmith House, Nottingham	Rent Review
29/03/2022	Unit 1, Technology Drive, Rugby	Deed of Variation

Specialist Portfolio

28. 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 March 2022		31 December 2021	
	£000	%	£000	%
Private Equity	278,800	19.0%	275,100	18.8%
Infrastructure	358,300	24.4%	348,000	23.8%
Credit	55,600	3.8%	54,000	3.7%
Property Funds	193,000	13.1%	188,200	12.9%
Aegon DGF	346,600	23.6%	333,900	22.8%
Equity Funds	238,000	16.2%	264,100	18.0%
Total	1,470,300		1,463,300	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-3,264	5,334	-8,598
Infrastructure	-3,106		-3,106
Credit			0
Property Funds	2,464	2,912	-448
Aegon DGF	25,000		25,000
Equity Funds			0
Totals	21,094	8,246	12,848

30. A further investment was made in the Aegon Sustainable Diversified Growth Fund to reflect the increased strategic asset allocation to Inflation linked funds approved by committee in March.

31. 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.
32. 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> .
33. 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> .
34. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter (principally AstraZeneca, Chipotle, Shell, Total, BHP and Rio Tinto). 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 26th January 2022. This was reported to committee in the April 2022 meeting.
35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Significant work took place following the invasion of Ukraine to evaluate the extent of investments in Russian stocks and the options for the Fund, which was followed by a formal statement of the Fund's desire to sell these stocks if/when possible. The PLSA held its annual ESG Conference which was attended by an officer. Preparations were made for the transition into the LGPS Central Global Sustainable Equity Active Fund.
36. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised.

Statutory and Policy Implications

37. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) It is recommended that Members consider whether there are any actions they require in relation to the issues contained within the report.

Name of Report Author: Tamsin Rabbitts

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

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments

38. 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 23/05/2022)

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

