

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT**FUTURE OF THE FIXED INCOME PORTFOLIO****Purpose of the Report**

1. To decide on the future management of our Fixed Income portfolio.

Information

2. Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities of LGPS Schemes to pool investments to reduce costs. LGPS Central Ltd was created by Nottinghamshire and other partners to deliver pooled investments to the member schemes. As funds become available, Nottinghamshire need to consider transferring investments to the pooled arrangements.
3. The fixed income portfolio within Nottinghamshire Pension Fund amounts to around £450 million. It consists of directly held corporate bonds, mainly in UK, with only around £20 million of overseas bonds, and £145 million of gilts.
4. LGPS Central is offering a global active investment grade corporate bond multi manager fund to Pension Funds from May 2019. The fund will not manage our gilt investments. We need to consider the best option for Nottinghamshire Pension Fund.
5. Some information relating to this decision is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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.

Summary Assessment**Guiding principles**

6. There are a number of issues we need to consider in deciding how to invest the fixed income portfolio going forwards, and it was decided at the committee meeting in June 2018 that these are the factors that will be analysed to enable the committee to make a decision. These issues are largely common to each of our major portfolios at the point at which we need to consider transferring to LGPS Central. These include:-

- Ongoing management costs
- Transition costs
- Quality and performance of the service
- Risk to service delivery
- Responsible Investment implications.

Ongoing Management Costs

7. Both management fees and transition costs need to be considered.

Transition costs

8. As far as possible we would hope to transfer holdings rather than sell and repurchase to minimise transition costs. LGPS Central would arrange for a Transitions Manager and a Transitions Adviser to manage the transition. If our portfolio remained with Kames transition costs would be avoided.

Quality and performance

9. Quality considerations relate to performance, reporting, and levels of service.

Risk to Service Delivery

10. All investment managers potentially involved in managing funds within this portfolio are well established and FCA regulated.

Market influence and Responsible Investment

11. There are no voting rights associated with corporate bonds, but all managers assess ESG standards as part of their analysis of investments. It is not considered that the differences are significant enough to influence the investment decision.

Related issues

12. Our current fixed income portfolio includes gilts. In the event that our corporate bonds transferred to the LGPS Central fund we would still require somebody to manage our gilts investments. Both Kames and LGPS Central have offered to manage our gilts.

Responsibility for decision

13. It is the Pension Fund Committee's responsibility to appoint Fund Managers for portfolios and to set asset allocation. These key decisions need to be taken by the Pension Fund Committee. As this investment relates to (virtually) a whole portfolio within the fund, this is a Pension Fund Committee decision. Members should note that future investments in particular subfunds through LGPS Central, within the agreed asset allocation will be the responsibility of officers.

Other Options Considered

14. Retaining our current investment manager. Despite the saving in transition costs, this was felt not to be consistent with the spirit of pooling.

Reason/s for Recommendation/s

15. In order for pooling to be successful for both partner funds and ourselves it is important that we participate in Pool funds where these are suitable to deliver our investment objectives unless there is a significant reason why not. Details of the comparisons between the two managers are set out in the appendix. Overall there is no significant reason not to transfer our corporate bonds to the LGPS Central fund. LGPS Central will also manage our gilts on a discretionary mandate as this was the lowest cost option.

Statutory and Policy Implications

16. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

There will be costs of transition and rebalancing. These will be managed to keep them as low as possible.

This transfer will help to realise the savings to be delivered as a result of Pooling.

RECOMMENDATION/S

- 1) The corporate bonds within the fixed income portfolio be transferred to the LGPS Central Global Active Investment Grade Corporate Bond Multi Manager fund.
- 2) The gilts held within the current portfolio will be managed for us by LGPS Central on a discretionary mandate.

Nigel Stevenson

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For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (SLB 18/04/2019)

17. Pension Fund Committee is the appropriate body to consider the content of this report.

Financial Comments (TMR 16/04/2019)

18. The financial implications are described within the report and the appendix.

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'

Electoral Division(s) and Member(s) Affected

- 'All'