

10 March 2022
Agenda Item: 8
**REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT**
FUND VALUATION AND PERFORMANCE – QUARTER 3
Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 31 December 2021.

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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 2021 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 December 2021		Benchmark	30 September 2021		31 December 2020	
	£m	%		£m	%	£m	%
Growth	4,090	61.7%	60%	4,172	64.3%	3,803	63.7%
Inflation protection	1,458	22.0%	28%	1,345	20.7%	1,190	19.9%
Income	744	11.2%	10%	698	10.8%	713	11.9%
Liquidity	336	5.1%	2%	271	4.2%	263	4.4%
	6,628	100.0%	100%	6,486	100.0%	5,969	100.0%

4. Within Income & Inflation protection are investments in Infrastructure assets amounting to £363.4m or 5.5% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 7.8% of the fund. There is a long term target for investments in infrastructure to be 8.0% of the fund.

5. The table below shows the detailed breakdown by portfolio of the Fund as at 31 December 2021 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	434.6	33%	912.8	44%	0.0	0%					0.0	0%	1,347.4	20%
Overseas Equities														
North America	268.2	21%	709.5	34%							0.0	0%	977.7	15%
Europe	262.1	20%	152.0	7%							163.6	10%	577.7	9%
Japan	125.7	10%	64.8	3%							100.5	6%	291.0	4%
Pacific	125.5	10%	51.1	2%									176.6	3%
Emerging Markets	85.0	7%	91.3	4%	129.1	15%					0.0	0%	305.4	5%
Global	0.0	0%	83.8	4%	43.2	5%					0.0	0%	127.0	2%
	866.5	67%	1,152.5	55%	172.3	19%					264.1	16%	2,455.4	37%
Private Equity					12.2	1%					275.1	17%	287.3	4%
Inflation protection														
Property														
UK Commercial									388.1	68%			388.1	6%
UK Commercial - Local									35.5	6%			35.5	1%
UK Strategic Land									3.9	1%			3.9	0%
Pooled - UK									31.5	6%	158.0	10%	189.5	3%
Pooled - Overseas									113.6	20%	30.2	2%	143.8	2%
									572.6		188.2	12%	760.8	11%
Infrastructure					15.4	2%					348.0	22%	363.4	5%
Inflation Linked											333.9	21%	333.9	5%
Income														
UK Bonds														
Gilts					208.5	23%							208.5	3%
Corporate Bonds					208.5	23%							372.5	6%
Overseas Bonds														
Corporate Bonds					321.7	36%							321.7	5%
					321.7	36%							321.7	5%
Credit					159.7	18%					54.0	3%	213.7	3%
Liquidity														
Cash/Currency	0.0	0%	30.1	1%	0.1	0%	0.0		0.0		141.4	9%	171.6	3%
Short bonds									164.0	100%			164.0	2%
Total	1,301.1	20%	2,095.4	32%	889.9	13%	164.0	2%	572.6	9%	1,604.7	24%	6,627.7	
Previous Qtr Totals	1,431.8	22%	2,022.5	31%	820.4	13%	141.6	2%	529.6	8%	1,542.0	24%	6,487.9	

6. The Fund investments have increased by £139.8 million (2.2%) since the previous quarter as the market has continued to grow, if unevenly. Fund investments have increased by £525.1 million (8.6%) over the last 12 months.

7. The table below shows the first three quarters Fund Account for 2021/22 with the full year figures for 2020/21.

Summary Fund Account	Q3	Full Year
	2021/22	2020/21
	£000	£000
Employer contributions	(109,974)	(201,395)
Member contributions	(32,571)	(49,638)
Transfers in from other pension funds	(5,450)	(5,580)
Pensions	139,352	179,425
Commutation of pensions and lump sums	26,126	31,607
Lump sum death benefits	5,649	5,237
Payments to and on account of leavers	7,519	13,086
Net (additions)/withdrawals from dealings with members	30,651	(27,258)
Administration Expenses	703	2,692
Oversight & governance expenses	32	1,804
Investment Income	(57,995)	(84,822)
Profits & losses on disposals & changes in value	(1,170,767)	(988,631)
Taxes on income	263	172
Investment management expenses	2,599	4,370
Net Returns on Investments	(1,225,900)	(1,073,281)
Net (increase)/decrease in net assets	(1,194,514)	(1,091,672)

Sustainable investments and fossil fuels

8. 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.
9. 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 trend will be much less smooth.

	Latest Quarter		Previous Quarter		Previous Year	
	31 December 2021		30 September 2021		31 December 2020	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	85.3	1.29%	85.7	1.32%	46.8	2.76%
Other Fossil fuel	70.0	1.06%	84.2	1.30%	67.6	1.14%
Total Fossil fuel	155.4	2.34%	170.0	2.62%	114.3	1.94%
Sustainable & Renewable	293.8	4.43%	291.3	4.49%	158.7	2.69%

10. In the most recent quarter the value of Fossil Fuel investments fell back slightly due mostly to market movements, and consequently also fractionally as the proportion of the Fund. Schroders returned a small proportion of last quarters gains on their Energy holdings.
11. 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.
12. 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. It decreased mainly because the passive holdings have reduced during the quarter as a result of rebalancing. 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.
13. 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.
14. For this reason, this indicator does not provide the full picture of our exposure to fossil fuels, but forms only part of our risk monitoring. However as an indicator it should show a reducing trend in exposure over time.
15. A more thorough assessment of our equity investments is provided by LGPS Central's 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 our investment in this area is through infrastructure funds which are not covered by the analysis. This analysis confirmed that our carbon footprint and fossil fuel and coal reserves are lower than the benchmark. The projection is that as we implement our long term investment strategy that these figures will reduce reflecting a reduction of risk.
16. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes five specific investments – the Renewables Infrastructure Group, Impax Environmental, 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.
17. 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.
18. 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.
19. 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

20. 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 at the Pension Fund Committee in the summer to reduce UK equities to 35% of the fund which will be reflected in the Core Index portfolio. This will be a gradual change over the rest of the year.

	31 December 2021			30 September 2021	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	434,553	33.4%	35%	535,290	37.4%
Overseas Equities:	866,554	66.6%	65%	896,493	62.6%
North America	268,245	20.6%	20%	303,454	21.2%
Europe	262,050	20.1%	20%	248,751	17.4%
Japan	125,694	9.6%	10%	132,155	9.2%
Pacific Basin	125,540	9.7%	10%	125,882	8.8%
Emerging Markets	85,025	6.5%	5%	86,251	6.0%
Cash	0	0.0%	0%	0	0.0%
Total	1,301,107			1,431,783	

21. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities		120,000	-120,000
Overseas Equities			
North America		60,502	-60,502
Europe			0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	180,502	-180,502

The sales in the quarter reflected the rebalancing activity in the quarter as we reduce our passive holdings and our allocation to the UK.

Schroder Investment Management Portfolio

22. 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 2021			30 September 2021		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	912,784	43.6%	45.0%	917,028	45.3%	
Overseas Equities	1,152,548	55.0%	54.5%	1,090,026	53.9%	
North America	709,473	33.9%	32.1%	646,957	32.0%	
Europe	152,027	7.3%	6.9%	141,621	7.0%	
Japan	64,777	3.1%	3.5%	68,903	3.4%	
Pacific Basin	51,103	2.4%	2.6%	55,039	2.7%	
Emerging Markets	91,323	4.4%	5.4%	96,152	4.8%	
Global Small Cap	83,845	4.0%	4.0%	81,354	4.0%	
Cash	30,095	1.4%	0.5%	15,431	0.8%	
Total	2,095,427			2,022,485		

23. The table below summarises transactions within the quarter.

Sector	Purchases	Sales	Net Purchases
	£000	£000	£000
UK Equities	36,247	50,453	-14,206
Overseas Equities			
North America	69,992	61,809	8,183
Europe	16,218	9,924	6,294
Japan	4,039	4,008	31
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	126,496	126,194	302

LGPS Central

24. 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 December 2021		30 September 2021	
	Portfolio		Portfolio	
	£000	%	£000	%
UK Passive	0	0%	10,314	1%
Global equity	43,212	5%	41,165	5%
EM equity active	129,144	15%	130,025	16%
Corporate bonds	321,712	36%	321,148	39%
Gilts	208,456	23%	204,174	25%
Private Equity	12,235	1%	11,855	1%
Infrastructure	15,436	2%	1,645	0%
Credit	159,712	18%	100,011	12%

Cash	59	0%	58	0%
Total	889,966		820,395	

25. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	14,497	13,874	623
Corporate Bonds	0		0
Equities			
UK	0	10,643	-10,643
Emerging Markets	0		0
Global	0		0
Private Equity	380		380
Infrastructure	13,790		13,790
Credit	60,000		60,000
Totals	88,667	24,517	64,150

During the quarter the Fund invested an additional £60m to the new MAC (Multi-Asset Credit) fund. The passive UK equity fund was realised. Another £13.8m of the Infrastructure fund commitment has been drawn. The remaining committed capital will be drawn over the next few years.

Abrdn (previously Aberdeen Standard Investments)

26. 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
06/10/2021	Unit 02 Vertex Park, Emmersons Green, Bristol	Deed of Surrender
20/10/2021	Unit A, Brooke Park, Handforth	Reversionary lease
21/10/2021	Bridlesmith House, Bridlesmith Gate, Nottingham	Rent Waiver
05/11/2021	40/42 Bridlesmith Gate, Nottingham	Dilapidations agreement
09/11/2021	Pets at Home, Technology Drive, Rugby	Rent Review
16/11/2021	Finlay House, West Nile Street, Glasgow	Deposit Agreement
16/11/2021	Units 2A and 2B Bagshot Retail Park	Unilateral Undertaking
26/11/2021	4 Martin Close, Blenheim Industrial Estate, Nottingham	Purchase
07/12/2021	Greybrook House London	New lease
09/12/2021	Plot 6100, Cross Point, Ansty, Coventry	Settlement Agreement

Specialist Portfolio

27. 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 2021		30 September 2021	
	£000	%	£000	%
Private Equity	275,100	18.8%	257,300	18.0%
Infrastructure	348,000	23.8%	351,100	24.6%
Credit	54,000	3.7%	72,300	5.1%
Property Funds	188,200	12.9%	141,000	9.9%
Aegon DGF	333,900	22.8%	322,000	22.6%
Equity Funds	264,100	18.0%	282,500	19.8%
Total	1,463,300		1,426,200	

28. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	9,161	4,201	4,960
Infrastructure	10,279		10,279
Credit			0
Property Funds	11,250		11,250
Aegon DGF			0
Equity Funds			0
Totals	30,690	4,201	26,489

29. There were new investments in listed Property, and listed Infrastructure. Additionally, two investments were recategorised which is reflected in the valuation table in paragraph 27. These were Cheyne Real Estate Credit fund £19m now categorised as Property instead of Credit and a listed Social Housing company £22m now categorised as Property rather than Infrastructure.

Responsible Investment Activity

30. 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.

31. 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 and. 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> .

32. 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> .

33. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter (principally Rio Tinto, BHP, National Grid, Roche and Anglo American). 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 6th October 2021. This was reported to committee in the November 2021 meeting.

34. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. In October Members and officers attended a full day Responsible Investment event organised by LGPS Central. The event considered such issues as 'Does Engagement Make a Difference' and 'Net Zero' and 'Carbon Emissions Reporting'. In November there was a training for Members on the Climate Risk Report and TCFD report which were presented to the November committee meeting. A Property training was held for Members and included a session on Abrdn's commitment to net zero and some examples of how ESG risks were identified and dealt with in our property portfolio.
35. A number of officer meetings have been held to discuss the LGPS Central Global Sustainable Equity Fund including a session to 'meet' the managers of each sleeve. In December there was a briefing for Members on the fund by LGPS Central. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised. The Climate Risk Report and TCFD report was approved by Committee in November and the Climate Action Plan was reviewed at the same meeting.

Statutory and Policy Implications

36. 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.

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Constitutional Comments

37. 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 15/02/2022)

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