

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**STRATEGIC ASSET ALLOCATION WORKING PARTY****Purpose of the Report**

1. The Pension Fund Working Party meets twice a year or additionally where circumstances require 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 12 January 2023 and makes recommendations as follows:-
 - 1) Amend the wording of the Fund's Investment Beliefs to those shown in Appendix C. Reflect the new wording in the Investment Strategy Statement at its next review.
 - 2) Include Index Linked Gilts as an investment option within the Inflation allocation currently met by the Aegon Sustainable Diversified Growth Fund.
 - 3) Rename the current Gilts mandate Government Bonds. Consider the extension of the universe to include overseas Government Bonds.
 - 4) Formalise the Strategic Asset Allocation credit category subclass allocations as shown in Table 1.

Information and Advice

2. The Working Party met on 12 January 2023. The agenda and attendees are listed in Appendices A and B, and details of the discussions and recommendations for each item are set out below.

Review of Investment Beliefs

3. The Working Party considered a report from William Bourne, independent adviser to the fund setting out the Fund's Investment Beliefs, which were last reviewed in detail in 2018. The wording has been reviewed by LGPS Central to ensure that the Nottinghamshire Pension Fund investment beliefs remain consistent with those of the Pool.

Recommendation 1. Amend the wording of the Fund's Investment Beliefs to those shown in Appendix C. Reflect the new wording in the Investment Strategy Statement at its next review.

4. The Fund's Investment Beliefs were considered and some amendments suggested to the wording by Members and officers. These are set out for approval in Appendix C.

Strategic Asset Allocation

5. The Working Party considered a report from William Bourne, independent adviser to the fund. The report considered the market environment, the preliminary results of the triennial valuation and the financial and climate risks in the Fund.
6. The Fund reviews its strategic asset allocation (SAA) annually to ensure it is appropriate. The report reviewed the Fund's SAA in the light of the current economic outlook. The option of derisking the current strategic asset allocation was considered alongside specific proposals for inflation and credit. No changes are currently proposed to the SAA, but the Working Party agreed to make the following recommendations to committee.

Recommendation 2. Include Index Linked Gilts as an investment option within the Inflation allocation currently met by the Aegon Sustainable Diversified Growth Fund.

7. Index Linked Gilts are a natural match for the Fund's liabilities but have over the last ten years traded with a negative real yield. If this improves it is proposed that a new allocation to Index Linked Gilts should be established through a LGPS Central Mandate. This would provide lower risk and a closer inflation hedge than the Aegon Sustainable Diversified Growth Fund is able to deliver.

Recommendation 3. Rename the current Gilts mandate Government Bonds. Consider the extension of the universe to include overseas Government Bonds.

8. The Fund has no allocation to overseas government bonds. This decision should be reviewed to potentially provide further diversification and reflect the new economic environment. A report will be brought to Committee at a future point following discussions with the Pool.

Recommendation 4. Formalise the SAA credit category subclass allocations as shown in Table 1.

Table 1

Credit subcategory	% Income	% SAA
Investment Grade – Multi Asset Credit	14.0%	1.4%
Investment Grade – Emerging Market Bonds	3.5%	0.4%
Private Credit	8.8%	0.9%
Credit Secondary Funds	8.8%	0.9%

9. The Credit Asset class is split 65% Investment Grade and 35% Private assets. Within Investment Grade credit 80% will be allocated to Multi Asset Credit and 20% to Emerging Market Bonds. This formalises the current split of LGPS Central investments held in this category.
10. In the Private credit allocation this is split between Private Credit (currently the Fund's investment in the Dorchester Credit Opportunities Fund) and Credit Secondaries. Although the latter is a new category, the Fund does currently hold a Credit Secondaries fund within the Private Equity allocation. It is proposed that the Dorchester Credit Secondaries fund is moved to the Credit category.

Climate Risk Considerations

11. In accordance with the LGPSC Climate Risk Report's recommendations climate change considerations have been integrated into the advice and recommendations in the report.
12. LGPS Central provided an updated scenario analysis to the Fund in 2022. LGPSC's reports demonstrate the Fund is managed in a way which mitigates climate risk and is consistent with a pathway to net zero.

Summary

13. The following table shows the current and proposed high level strategic asset allocations which are unchanged.

Table 2

Outcome	Asset Classes	30/09/2022 portfolio %	Long term SAA %	Range %
Growth	Listed and Private equity	59.8	60.0	50-70
Inflation protection	Property, Infrastructure, Index Linked Aegon DGF	26.4	28.0	15-30
Income	Fixed Income	9.6	10.0	5-15
Liquidity	Cash, Aegon short term bonds	4.2	2.0	0-10

GMP (Guaranteed Minimum Pension) reconciliation

14. The Working Party received a presentation from Jon Clewes, Pension Manager setting out some of the issues in the ongoing reconciliation of GMP data pending a future report to committee.

Climate risk training

15. Climate risk training was provided by LGPS Central. The topic of this year's training was Green Bonds following a request from Members. The nature of the market and lack of formal regulation was considered and the risk of greenwashing highlighted. The extent of green bond investment within LGPS Central's current Corporate Bond, Emerging Market Debt and Multi Asset Credit funds was identified.

Statutory and Policy Implications

16. 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

It is recommended that Committee

- 1) Amend the wording of the Fund's Investment Beliefs to those shown in Appendix C. Reflect the new wording in the Investment Strategy Statement at its next review.
- 2) Include Index Linked Gilts as an investment option within the Inflation allocation currently met by the Aegon Sustainable Diversified Growth Fund.
- 3) Rename the current Gilts mandate Government Bonds. Consider the extension of the universe to include overseas Government Bonds.
- 4) Formalise the SAA credit category subclass allocations as shown in Table 1.

Nigel Stevenson

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For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 07/02/2023)

17. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 07/02/2023)

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