

8 December 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 30 September 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 30 September 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	
	30 Sept 2022		Benchmark	30 June 2022		30 Sept 2021	
	£m	%		£m	%	£m	%
Growth	3,690	59.7%	60%	3,683	58.6%	4,172	64.3%
Inflation Protection	1,635	26.4%	28%	1,660	26.4%	1,345	20.7%
Income	602	9.7%	10%	649	10.3%	698	10.8%
Liquidity	258	4.2%	2%	292	4.6%	271	4.2%
	6,185	100.0%	100%	6,283	100.0%	6,486	100.0%

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next year or so as commitments to less liquid investments are called.
5. Within Inflation Protection are investments in Infrastructure assets amounting to £447.5m or 7.2% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 10.0% 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 30 September 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	399.4	34%	614.6	38%	0.0	0%					0.0	0%	1,014.0	16%
Overseas Equities														
North America	245.6	21%	605.0	37%							0.0	0%	850.6	14%
Europe	211.8	18%	119.8	7%							148.7	9%	480.3	8%
Japan	114.1	10%	56.7	3%							77.5	5%	248.3	4%
Pacific	114.4	10%	48.3	3%									162.7	3%
Emerging Markets	78.7	7%	92.6	6%	128.2	12%					0.0	0%	299.5	5%
Global	0.0	0%	65.3	4%	323.3	30%					0.0	0%	388.6	6%
	764.6	66%	987.7	61%	451.5	42%					226.2	14%	2,430.0	39%
Private Equity					20.2	2%					225.3	14%	245.5	4%
Inflation protection														
Property														
UK Commercial									399.9	64%			399.9	6%
UK Commercial - Local									36.0	6%			36.0	1%
UK Strategic Land									31.7	5%			31.7	1%
Pooled - UK									37.8	6%	218.5	14%	256.3	4%
Pooled - Overseas									118.0	19%	29.9	2%	147.9	2%
									623.4		248.4	16%	871.8	14%
Infrastructure					60.7	6%					386.8	24%	447.5	7%
Inflation Linked											316.1	20%	316.1	5%
Income														
UK Bonds														
Gilts					127.4	12%							127.4	2%
Corporate Bonds														
					127.4	12%							127.4	2%
Overseas Bonds														
Corporate Bonds					275.7	26%							275.7	4%
					275.7	26%							275.7	4%
Credit					133.9	13%					65.1	4%	199.0	3%
Liquidity														
Cash/Currency	0.0	0%	27.7	2%	0.1	0%	0.0	0%	0.0		114.1	7%	141.9	2%
Short bonds							115.8	100%					115.8	2%
Total	1,164.0	19%	1,630.0	26%	1,069.5	17%	115.8	2%	623.4	10%	1,582.0	26%	6,184.7	
Previous Qtr Totals	1,184.4	19%	1,638.0	26%	1,103.4	18%	132.1	2%	653.3	10%	1,571.6	25%	6,282.8	

7. The value of the Fund's investments has decreased by £98.1 million (1.6%) since the previous quarter following the market turmoil in September. Over the last 12 months the value has decreased by £300.9 million (-4.6%).

8. The table below shows the first half Fund Account for 2022/23 with the unaudited full year figures for 2021/22.

Summary Fund Account	Q2	Full Year
	2022/23	2021/22
	£000	£000
Employer contributions	(76,633)	(165,539)
Member contributions	(21,788)	(51,127)
Transfers in from other pension funds	(3,435)	(5,860)
Pensions	92,627	186,770
Commutation of pensions and lump sums	18,606	34,297
Lump sum death benefits	3,964	6,945
Payments to and on account of leavers	4,059	8,893
Net (additions)/withdrawals from dealings with members	17,400	14,379
Administration Expenses	696	3,246
Oversight & governance expenses	(247)	1,531
Investment Income	(32,460)	(94,147)
Profits & losses on disposals & changes in value	(60,187)	(415,159)
Taxes on income	171	295
Investment management expenses	1,326	20,657
Net Returns on Investments	(91,150)	(509,011)
Net (increase)/decrease in net assets	(73,301)	(469,198)

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 Schrodgers (direct) portfolio as investments are made based on Schrodgers 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	
	30 Sept 2022		30 June 2022		30 Sept 2021	
	£m	% of Fund	£m	%	£m	%
Schrodgers Fossil fuel	109.7	1.77%	102.9	1.56%	85.7	1.32%
Other Fossil fuel	90.3	1.45%	85.3	1.30%	84.2	1.30%
Total Fossil fuel	200.0	3.22%	188.1	2.86%	169.9	2.62%
Sustainable & Renewable	763.5	12.30%	747.6	11.37%	291.3	4.49%

11. In the most recent quarter oil and gas supply continues to be constrained, which has increased energy prices globally. In the longer term this should speed the transition as a high oil price incentivises alternatives and investment to reduce consumption. However in the short term this has increased prices and hence valuations of both Oil and Gas holdings and renewable energy investments in the Fund. Schroders gained just over £7m 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 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 2022 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves. This analysis is being presented to Committee at this meeting. 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 nine specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, the three LGPS Central Global Sustainable Equity funds which were new investments during the quarter, and three renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund and the Langar Lane Solar Farm.
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 is now several times higher than 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.
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).

	30 Sept 2022			30 June 2022	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	399,445	34.3%	35%	413,624	34.9%
Overseas Equities:	764,634	65.7%	65%	770,808	65.1%
North America	245,632	21.1%	20%	237,574	20.1%
Europe	211,764	18.2%	20%	221,717	18.7%
Japan	114,144	9.8%	10%	113,067	9.6%
Pacific Basin	114,378	9.8%	10%	117,856	10.0%
Emerging Markets	78,716	6.8%	5%	80,594	6.8%
Cash	0	0.0%	0%	0	0.0%
Total	1,164,079			1,184,432	

22. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities			0
Overseas Equities			
North America			0
Europe		5,125	-5,125
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	5,125	-5,125

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.

	30 Sept 2022			30 June 2022	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	614,612	37.7%	40.0%	647,150	39.5%
Overseas Equities	987,599	60.6%	59.5%	936,494	57.2%
North America	604,977	37.1%	36.3%	556,054	33.9%
Europe	119,797	7.4%	7.0%	113,513	6.9%
Japan	56,669	3.5%	3.5%	56,577	3.5%
Pacific Basin	48,255	3.0%	2.9%	48,266	2.9%
Emerging Markets	92,589	5.7%	5.8%	97,446	5.9%
Global Small Cap	65,312	4.0%	4.0%	64,638	3.9%
Cash	27,675	1.7%	0.5%	54,341	3.3%
Total	1,629,886			1,637,985	

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	21,768	15,956	5,812
Overseas Equities			
North America	100,266	75,441	24,825
Europe	26,380	19,391	6,989
Japan	3,944	3,980	-36
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	152,358	114,768	37,590

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.

	30 Sept 2022		30 June 2022	
	Portfolio £000	%	Portfolio £000	%
Global equity	323,286	30%	318,695	29%
EM equity active	128,227	12%	133,131	12%
Corporate bonds	275,702	26%	301,882	27%
Gilts	127,413	12%	147,836	13%
Private Equity	20,246	2%	19,419	2%
Infrastructure	60,728	6%	44,376	4%
Credit	133,881	13%	137,980	13%
Cash	147	0%	107	0%
Total	1,069,630		1,103,426	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	31,331	30,889	442
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Private Equity	826		826
Infrastructure	14,662		14,662
Credit			0
Totals	46,819	30,889	15,930

There main significant movement was a £14.6m call on the Infrastructure fund. 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
01/07/2022	Unit 1B, Nursling Industrial Estate, Southampton	New lease
05/07/2022	Blenheim Industrial Estate	Rent Review
07/07/2022	Unit 6, Blenheim Industrial Estate	Rent Review
08/07/2022	Western Avenue, Ealing	Exclusivity Agreement Rent Review
25/07/2022	Christchurch Industrial Estate, Harrow	Memorandum
23/08/2022	Greybrook House, 28 Brook Street	New lease
31/08/2022	Unit 5, Concorde Park, Concorde Way, Fareham	New lease
21/09/2022	Unit 3A Brooke Park, Siemens Plc	Reversionary lease Rent Review
29/09/2022	Units 2A and 2B Bagshot Retail Park (Waitrose)	Memorandum

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.

	30 Sept 2022		30 June 2022	
	£000	%	£000	%
Private Equity	225,300	15.3%	218,300	14.9%
Infrastructure	386,800	26.4%	376,700	25.7%
Credit	65,100	4.4%	61,500	4.2%
Property Funds	248,400	16.9%	257,300	17.5%
Aegon DGF	316,100	21.5%	327,700	22.3%
Equity Funds	226,200	15.4%	225,100	15.3%
Total	1,467,900		1,466,600	

The reduction in Private Equity is largely the result of the reclassification of the Darwin funds at the beginning of the new year. The Darwin Bereavement fund is now categorised as infrastructure and the Darwin Leisure funds are now included in property as agreed at the Pension Fund Committee meeting in March.

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-4,191	3,650	-7,841
Infrastructure	5,588		5,588
Credit			0
Property Funds		1,314	-1,314
Aegon DGF			0
Equity Funds		2,290	-2,290
Totals	1,397	7,254	-5,857

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, Schrodgers 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> .
32. The committee is receiving a report on the progress being made by the companies identified on our Climate Stewardship plan as part of the Climate Risk Analysis.
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. More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF business meetings were attended.
35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. The LAPF Strategic Investment Forum was attended by two committee members and an officer. This included sessions on the energy transition, carbon in fixed income, climate change, the effectiveness of engagement, and setting responsible investment targets. The LGPS Central pool Responsible Investment Working Group was attended in July and considered such issues as remuneration, plastic pollution, biodiversity and modern slavery. The Pension Fund committee held a working party meeting which was attended by LGPS Central to deliver a training on voting strategies.
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.

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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 24/11/2022)

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