

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

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 9 August 2021 and makes recommendations as follows.

1) Change the strategic benchmark to the following:

Outcome	Weight (%)	Strategic Benchmark
Growth	60%	65% FTSE World ex UK 35% FT Allshare
Inflation protection (income)	28%	CPI
Income	10%	FTSE UK All Stock
Liquidity	2%	SONIA

Information and Advice

2. The Working Party met on 9 August 2021. 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.

Cash Options

3. The Working Party considered a report from William Bourne, independent adviser to the fund.
4. The paper explores options for investing the Fund’s Liquidity assets, which are held either to provide cash to pay pensions, or on a short to medium-term awaiting investment in longer term assets in the private markets. The Fund is currently overweight equities and underweight in the less liquid asset classes. A rebalancing of our equity exposure would generate cash which would need to be held until required for other investments committed but not yet called by the managers.
5. Most cash investments held in money market funds or bank accounts generate almost zero interest so other options were considered to improve the return to the Fund.

6. The options were discussed by the working party and the indicative proposal made by the independent adviser was accepted. This gives a range of investments to deliver some return whilst minimising risk.

Table 1 - Proposal

Vehicle	Indicative Allocation (£mn)	%	Estimated Income (bps)
Short dated gilts (LGPS Central)	130	37%	8
Aegon corp bond mandate	130	37%	85
Listed Private Equity vehicles	40	11%	100
Listed Infrastructure vehicles	30	9%	400
Listed Real Estate vehicles	20	6%	400
TOTAL	350	100%	1.00%

7. The investment of assets within the Strategic Asset Allocation set by the committee is an operational decision delegated to officers so there is no recommendation for decision.

Benchmark Indices

8. The Working Party next considered a further paper from William Bourne. The paper reviewed the various benchmarks and targets used to monitor the Fund's asset performance over time to clarify for the Committee the different purposes they serve. A detailed discussion took place.
9. An update to the strategic benchmark was proposed to reflect recent changes in the equity allocation and suggested improvements in some constituents. Those asset classes which are mainly there to provide inflation protection will now be measured against CPI. Liquid assets will now be measured against SONIA (the Bank of England's Sterling Overnight Index Average) which is the recommended replacement to LIBOR (from which the previous index LIBID is derived).

Responsible Investment training

9. Responsible investment training was provided by LGPS Central and generated much Member discussion. The presentation looked at the evolution of responsible investment over more than a century and the possible different approaches to responsible investment which can be taken. There was a particular focus on engagement and voting and the responsible investment approach at LGPS Central and a section on the Climate Risk Monitoring Service.

Statutory and Policy Implications

10. 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. Changes the strategic benchmark to the following:

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Growth	60%	65% FTSE World ex UK 35% FT Allshare
Inflation protection (income)	28%	CPI
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Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 12/08/2021)

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

Financial Comments (TMR 10/08/2021)

12. 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