

1 September 2022

Agenda Item: 12

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 June 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 June 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	
	31 March 2022		Benchmark	31 March 2022		30 June 2021	
	£m	%		£m	%	£m	%
Growth	3,683	58.6%	60%	3,985	60.6%	4,208	65.9%
Inflation Protection	1,660	26.4%	28%	1,583	24.1%	1,307	20.5%
Income	649	10.3%	10%	699	10.6%	632	9.9%
Liquidity	292	4.6%	2%	311	4.7%	241	3.8%
	6,283	100.0%	100%	6,578	100.0%	6,388	100.0%

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next few years as commitments to less liquid investments are called.
5. Within Inflation Protection are investments in Infrastructure assets amounting to £421.0m or 6.7% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.7% 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 June 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	413.6	35%	647.2	40%	0.0	0%					0.0	0%	1,060.8	17%
Overseas Equities														
North America	237.6	20%	556.1	34%							0.0	0%	793.7	13%
Europe	221.7	19%	113.5	7%							152.9	10%	488.1	8%
Japan	113.1	10%	56.6	3%							72.2	5%	241.9	4%
Pacific	117.9	10%	48.3	3%									166.2	3%
Emerging Markets	80.6	7%	97.4	6%	133.1	12%					0.0	0%	311.1	5%
Global	0.0	0%	64.6	4%	318.7	29%					0.0	0%	383.3	6%
	770.9	65%	936.5	57%	451.8	41%					225.1	14%	2,384.3	38%
Private Equity					19.4	2%					218.3	14%	237.7	4%
Inflation protection														
Property														
UK Commercial									427.1	65%			427.1	7%
UK Commercial - Local									38.3	6%			38.3	1%
UK Strategic Land									32.7	5%			32.7	1%
Pooled - UK									36.4	6%	225.9	14%	262.3	4%
Pooled - Overseas									118.9	18%	31.4	2%	150.3	2%
									653.4		257.3	16%	910.7	14%
Infrastructure					44.4	4%					376.7	24%	421.1	7%
Inflation Linked											327.7	21%	327.7	5%
Income														
UK Bonds														
Gilts					147.8	13%							147.8	2%
Corporate Bonds														
					147.8	13%							147.8	2%
Overseas Bonds														
Corporate Bonds					301.9	27%							301.9	5%
					301.9	27%							301.9	5%
Credit					138.0	13%					61.5	4%	199.5	3%
Liquidity														
Cash/Currency	0.0	0%	54.3	3%	0.1	0%	0.0	0%	0.0		105.1	7%	159.5	3%
Short bonds									132.1	100%			132.1	2%
Total	1,184.5	19%	1,638.0	26%	1,103.4	18%	132.1	2%	653.4	10%	1,571.7	25%	6,283.1	
Previous Qtr Totals	1,274.5	19%	2,065.6	31%	854.6	13%	149.4	2%	652.1	10%	1,581.8	24%	6,578.0	

7. The value of the Fund's investments has decreased by £294.9 million (4.5%) since the previous quarter as inflationary fears and central bank activities impacted confidence. Over the last 12 months the value has increased by £104.9 million (1.6%).

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

Summary Fund Account	Q1	Full Year
	2022/23	2021/22
	£000	£000
Employer contributions	(31,899)	(165,539)
Member contributions	(7,226)	(51,127)
Transfers in from other pension funds	(2,240)	(5,859)
Pensions	49,634	186,770
Commutation of pensions and lump sums	10,149	34,297
Lump sum death benefits	1,640	6,945
Payments to and on account of leavers	4,512	8,893
Net (additions)/withdrawals from dealings with members	24,570	14,380
Administration Expenses	7	3,246
Oversight & governance expenses	(240)	1,531
Investment Income	(5,242)	(100,016)
Profits & losses on disposals & changes in value	299,006	(1,069,819)
Taxes on income	205	295
Investment management expenses	104	5,457
Net Returns on Investments	294,073	(1,164,083)
Net (increase)/decrease in net assets	318,410	(1,144,926)

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 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 downward trend is unlikely to be smooth.

	Latest Quarter		Previous Quarter		Previous Year	
	30 June 2022		31 March 2022		30 June 2021	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	102.9	1.56%	129.4	1.97%	71.4	3.66%
Other Fossil fuel	85.3	1.30%	82.1	1.25%	84.4	1.32%
Total Fossil fuel	188.1	2.86%	211.5	3.21%	155.7	2.44%
Sustainable & Renewable	747.6	11.37%	486.4	7.39%	257.0	4.02%

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. Despite reducing their total holding Schroders gained just over £1m 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 2021 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 the Fund's investment in this area is through infrastructure funds which are not covered by the analysis. The analysis confirmed that our carbon footprint and fossil fuel and coal reserves are lower than the benchmark. 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 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.
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. A step change has occurred this quarter as the LGPS Central Global Sustainable Equity funds were launched.

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 June 2022			31 March 2022	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	413,624	34.9%	35%	435,415	34.2%
Overseas Equities:	770,808	65.1%	65%	839,065	65.8%
North America	237,574	20.1%	20%	262,857	20.6%
Europe	221,717	18.7%	20%	243,048	19.1%
Japan	113,067	9.6%	10%	121,170	9.5%
Pacific Basin	117,856	10.0%	10%	129,086	10.1%
Emerging Markets	80,594	6.8%	5%	82,904	6.5%
Cash	0	0.0%	0%	0	0.0%
Total	1,184,432			1,274,480	

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			0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	0	0

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 June 2022			31 March 2022	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	647,150	39.5%	40.0%	924,559	44.8%
Overseas Equities	936,494	57.2%	59.5%	1,090,544	52.8%
North America	556,054	33.9%	36.3%	641,504	31.1%
Europe	113,513	6.9%	7.0%	138,607	6.7%
Japan	56,577	3.5%	3.5%	69,171	3.3%
Pacific Basin	48,266	2.9%	2.9%	54,530	2.6%
Emerging Markets	97,446	5.9%	5.8%	107,687	5.2%
Global Small Cap	64,638	3.9%	4.0%	79,045	3.8%
Cash	54,341	3.3%	0.5%	50,526	2.4%
Total	1,637,985			2,065,629	

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	9,965	259,930	-249,965
Overseas Equities			
North America	71,380	93,247	-21,867
Europe	17,588	27,450	-9,862
Japan	4,096	12,545	-8,449
Pacific Basin	0	3,638	-3,638
Emerging Markets	0	4,230	-4,230
Global Small Cap	0	6,704	-6,704
Totals	103,029	407,744	-304,715

The net sales shown reflect the transition from the Schroders portfolio to the LGPS Central Global Sustainable Equity funds.

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.

	31 March 2022 Portfolio		31 March 2022 Portfolio	
	£000	%	£000	%
Global equity	318,695	29%	42,112	5%
EM equity active	133,131	12%	117,113	14%
Corporate bonds	301,882	27%	299,247	35%
Gilts	147,836	13%	193,725	23%
Private Equity	19,419	2%	19,243	2%
Infrastructure	44,376	4%	32,500	4%
Credit	137,980	13%	150,585	18%
Cash	107	0%	89	0%
Total	1,103,426		854,614	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	3,290	32,576	-29,286
Corporate Bonds	30,000		30,000
Equities			
UK	0		0
Global	321,667		321,667
Emerging Markets	20,000		20,000
Private Equity	-435		-435
Infrastructure	9,925		9,925
Credit			0
Totals	384,447	32,576	351,871

There were a number of movements during the quarter reflecting the investment in the Global Sustainable Equity fund, some rebalancing from gilts to corporate bonds, an additional investment in Emerging Market Equities to offset our underweight, and another £9.9m of the Infrastructure fund commitment has been drawn. A further commitment was made during the quarter. 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
07/04/2022	Second Floor, Finlay House 10-14 West Nile Street, Glasgow	Assignment and Variation
07/04/2022	Bensons for Beds, Unit 3 Technology Retail Park, Rugby	Deed of Surrender
21/04/2022	Concorde Park, Segensworth, Fareham	Rent Deposit Deed
22/04/2022	Sheepscar Way, Leeds	Sale of property
27/04/2022	Land and Buildings on the South Side of Brookside Way, Huthwaite	Licence to Underlet
13/05/2022	Unit 3 Richardson Way, Coventry	New lease
18/05/2022	201 and 202 Bridlesmith Gate	Dilapidations Settlement Agreement
19/05/2022	202 and 202 Bridlesmith Gate	Sale
30/05/2022	Concorde Park, Segensworth, Fareham	New lease
14/06/2022	Macon Way, Crewe	Rent Concession
29/06/2022	Concorde Park, Concorde Way, Fareham	Additional Electricity Substation

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 June 2022		31 March 2022	
	£000	%	£000	%
Private Equity	218,300	14.9%	278,800	19.0%
Infrastructure	376,700	25.7%	358,300	24.4%
Credit	61,500	4.2%	55,600	3.8%
Property Funds	257,300	17.5%	193,000	13.1%
Aegon DGF	327,700	22.3%	346,600	23.6%
Equity Funds	225,100	15.3%	238,000	16.2%
Total	1,466,600		1,470,300	

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	1,406	1,810	-404
Infrastructure	-5,500		-5,500
Credit			0
Property Funds		1,271	-1,271
Aegon DGF	20,000		20,000
Equity Funds	-30		-30
Totals	15,876	3,081	12,795

30. A further investment was made in the Aegon Sustainable Diversified Growth Fund to reflect the increased strategic asset allocation to Inflation linked funds approved by committee in March.

Responsible Investment Activity

31. 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.
32. 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, Schroders 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>.
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 transition into the LGPS Central Global Sustainable Equity Active Fund took place.
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 18/08/2022)

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