

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 31 March 2024.

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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 March 2024 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 Mar 2024		Benchmark	31 Dec 2023		31 Mar 2023	
	£m	%		£m	%	£m	%
Growth	4,469	63.8%	57%	4,228	62.9%	4,008	62.3%
Inflation Protection	1,645	23.5%	28%	1,612	24.0%	1,601	24.9%
Income	699	10.0%	11%	680	10.1%	633	9.8%
Liquidity	191	2.7%	4%	207	3.1%	194	3.0%
	7,003	100.0%	100%	6,726	100.0%	6,436	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 £507.4m or 7.3% of the fund. If funds committed but not yet drawn down are included, the allocation to

infrastructure would total 8.6% of the fund. Following the decisions made by Pension Fund Committee in March 24 there was a long-term target for investments in infrastructure to be 9.3% of the fund.

6. The table below shows the detailed breakdown by portfolio of the Fund as at 31 March 2024 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	486.9	33%	714.3	35%	0.0	0%					0.0	0%	1,201.2	17%		
Overseas Equities																
North America	320.8	22%	793.5	39%							0.0	0%	1,114.3	16%		
Europe	289.0	20%	169.6	8%							167.7	11%	626.3	9%		
Japan	151.2	10%	71.1	3%							71.5	5%	293.8	4%		
Pacific	129.9	9%	52.7	3%									182.6	3%		
Emerging Markets	84.3	6%	113.3	6%	132.6	10%					0.0	0%	330.2	5%		
Global	0.0	0%	80.6	4%	413.5	30%					0.0	0%	494.1	7%		
	975.2	67%	1,280.8	63%	546.1	39%					239.2	15%	3,041.3	43%		
Private Equity					59.8	4%					167.0	11%	226.8	3%		
Inflation protection																
Property																
UK Commercial									363.7	69%			363.7	5%		
UK Commercial - Local									29.6	6%			29.6	0%		
UK Strategic Land									3.0	1%			3.0	0%		
Pooled - UK					8.2	1%			35.7	7%	156.6	10%	200.5	3%		
Pooled - Overseas									91.6	17%	57.8	4%	149.4	2%		
									523.6		214.4	14%	746.2	11%		
Infrastructure					124.6	9%					382.8	24%	507.4	7%		
Inflation Linked					33.9	2%					357.0	23%	390.9	6%		
Income																
UK Bonds																
Gilts					134.1	10%							134.1	2%		
Corporate Bonds																
					134.1	10%							134.1	2%		
Overseas Bonds																
Corporate Bonds					321.4	23%							321.4	5%		
					321.4	23%							321.4	5%		
Credit					155.6	11%					87.4	6%	243.0	3%		
Liquidity																
Cash/Currency	0.0	0%	42.6	2%	0.2	0%	0.0	0%	0.0	0%			121.2	8%	164.0	2%
Short bonds									26.8	100%			26.8	0%		
Total	1,462.1	21%	2,037.7	29%	1,383.9	20%	26.8	0%	523.6	7%	1,569.0	22%	7,003.1			
Previous Qtr Totals	1,379.9	21%	1,915.5	28%	1,328.9	20%	41.4	1%	525.7	8%	1,535.0	23%	6,726.4			

7. The value of the Fund's investments has increased by £276.7 million (4.1%) since the previous quarter. Over the last 12 months the value has increased by £567.1 million (8.8%).

8. The table below shows the unaudited Fund Account for 2023/24 with the audited full year figures for 2022/23.

Summary Fund Account	Full Year 2023/24 £000	Full Year 2022/23 £000
Employer contributions	(208,435)	(175,315)
Member contributions	(61,577)	(54,643)
Transfers in from other pension funds	(16,005)	(18,937)
Pensions	221,114	197,937
Commutation of pensions and lump sums	38,722	36,224
Lump sum death benefits	6,933	6,202
Payments to and on account of leavers	7,945	17,991
Net (additions)/withdrawals from dealings with members	-11,303	9,459
Administration Expenses	3,164	2,687
Oversight & governance expenses	1,875	1,701
Investment management expenses	21,470	21,838
Investment Income	(92,709)	(90,118)
Profits & losses on disposals & changes in value	(483,520)	204,164
Taxes on income	335	404
Net Returns on Investments	(334,373)	114,450
Net (increase)/decrease in net assets	(575,894)	150,135

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	
	31 Dec 2023		31 Dec 2023		31 Mar 2023	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	114.8	1.64%	112.7	1.67%	103.8	1.61%
Other Fossil fuel	97.2	1.39%	91.6	1.36%	90.8	1.41%
Total Fossil fuel	212.0	3.03%	204.3	3.02%	194.5	3.02%
Sustainable & Renewable	888.3	12.68%	835.5	12.37%	823.4	12.79%

11. Despite further investments in the Aegon Sustainable Diversified Growth Fund the proportion of the Fund invested in both Fossil Fuel and Sustainable investments has remained stable over the last year.
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. Schroders gained £4.0m on their Oil and Gas holdings during the quarter.
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. 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 2023 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves which was presented to Committee at the December 2023 meeting.
17. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes eleven specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, the three LGPS Central Global Sustainable Equity funds, 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. First Solar and Siemens Energy, held within the Schroders portfolio are also included.
18. An estimate of the renewable energy investments within the Fund's other infrastructure funds was added to these identified investments. Not all funds identify 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.
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).

	31 Mar 2024			31 Dec 2023	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	486,877	33.3%	35%	469,862	34.0%
Overseas Equities:	975,194	66.7%	65%	910,068	66.0%
North America	320,767	21.9%	20%	291,414	21.1%
Europe	289,045	19.8%	20%	271,946	19.7%
Japan	151,232	10.3%	10%	135,536	9.8%
Pacific Basin	129,898	8.9%	10%	129,612	9.4%
Emerging Markets	84,252	5.8%	5%	81,560	5.9%
Cash	0	0.0%	0%	0	0.0%
Total	1,462,071			1,379,930	

22. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities			0
Overseas Equities			
North America		2,513	2,513
Europe		0	0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	2,513	2,513

These sales related to the disposal of some legacy holdings.

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.

	31 Mar 2024			31 Dec 2023	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	714,279	35.1%	40.0%	693,495	36.2%
Overseas Equities	1,280,870	62.9%	59.5%	1,180,262	61.6%
North America	793,453	38.9%	35.7%	718,104	37.5%
Europe	169,637	8.3%	7.6%	158,901	8.3%
Japan	71,104	3.5%	3.6%	68,525	3.6%
Pacific Basin	52,701	2.6%	2.8%	49,483	2.6%
Emerging Markets	113,342	5.6%	5.8%	108,946	5.7%
Global Small Cap	80,633	4.0%	4.0%	76,303	4.0%
Cash	42,620	2.1%	0.5%	41,748	2.2%
Total	2,037,769			1,915,505	

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	13,758	4,178	9,580
Overseas Equities			
North America	63,365	80,405	-17,040
Europe	22,336	19,935	2,401
Japan	6,663	6,776	-113
Pacific Basin	4,000	0	4,000
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	110,122	111,294	-1,172

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 Mar 2024		31 Dec 2023	
	Portfolio		Portfolio	
	£000	£000	£000	%
Global equity	413,513	30%	382,976	29%
EM equity active	132,615	10%	129,659	10%
Corporate bonds	321,386	23%	318,431	24%
Gilts	134,148	10%	136,243	10%
Index linked gilts	33,922	2%	35,271	3%
Private Equity	59,777	4%	54,578	4%
Infrastructure	124,617	9%	113,348	9%
Credit	155,634	11%	153,312	12%
Property	8,184	1%	4,883	0%
Cash	195	0%	191	0%
Total	1,383,991		1,328,892	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	666	0	666
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Index Linked Gilts	0		0
Private Equity	5,301	-6	5,307
Infrastructure	12,769		12,769
Property	3,574		3,574
Credit			0
Totals	22,310	-6	22,316

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
25/01/2024	Units 6 and 7 Concorde Park, Concorde Way, Fareham	Deed of Surrender
08/02/2024	Unit 2A Bagshot Retail Park, Bagshot, Surrey	Lease and License for Alterations
08/02/2024	Unit 4 Crosspoint Business Park, Coventry	Renewal Lease
21/02/2024	Unit 10 Concorde Park, Fareham	License
07/03/2024	Unit MK180, Chippenham Drive, Milton Keynes	Rent Review Memorandum
21/03/2024	Land East Of Rosemead, Horebrech Lane, Horam, East Sussex	s106 agreement

28. Members of the Committee attended a Property Inspection in May, visiting properties in Barking, Bagshot and Bristol. Abrdn also provided a training on the Alternative Sector which is a growing area of investment,

Specialist Portfolio

29. 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 Mar 2024		31 Dec 2023	
	£000	%	£000	%
Private Equity	167,000	11.5%	168,100	11.9%
Infrastructure	382,800	26.4%	395,400	28.0%
Credit	87,400	6.0%	72,100	5.1%
Property Funds	214,400	14.8%	216,200	15.3%
Aegon DGF	357,000	24.7%	321,100	22.7%
Equity Funds	239,200	16.5%	238,800	16.9%
Total	1,447,800		1,411,700	

30. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-5,191	2,697	-7,888
Infrastructure	10,315	838	9,477
Credit	-12,920		-12,920
Property Funds	-6,614	722	-7,336
Aegon DGF	30,000		30,000
Equity Funds			0
Totals	15,590	4,257	11,333

The negative purchases relate to returns of capital from various funds.

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 LGIM and Schroders and a number of smaller investment managers in addition to the LAPFF Quarterly Engagement report and LGPS Central's Annual Stewardship Report and Quarterly Stewardship Update Report. 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. The January LAPFF business meeting was attended and was reported to Committee at the April Committee meeting.
35. The 2023 Climate Stewardship report was written during the quarter for presentation at the April 2024 Pension Fund Committee meeting. LGPS Central attended the working party in January and delivered Climate risk training. The topic of this year's training was "Investing During the Time of Climate Change". The presentation considered how to monitor climate risk and opportunities and the impact Pension Funds can have through capital allocation, stewardship and manager engagement activities.
36. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter in addition to those already mentioned. The LGPS Central pool Responsible Investment Working Group was attended in January and considered such issues as stewardship, antimicrobial resistance and an update on Central's new ESG system.
37. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised.

Statutory and Policy Implications

38. 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

39. 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 31/5/2024)

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