

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 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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 31 March 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 December 2021		31 March 2021	
	£m	%		£m	%	£m	%
Growth	3,985	60.6%	60%	4,090	61.7%	3,953	64.8%
Inflation Protection	1,583	24.1%	28%	1,458	22.0%	1,249	20.5%
Income	699	10.6%	10%	744	11.2%	588	9.6%
Liquidity	311	4.7%	2%	336	5.1%	313	5.1%
	6,578	100.0%	100%	6,628	100.0%	6,102	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 £390.8m or 5.9% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 8.7% 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 31 March 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	435.4	34%	924.6	45%	0.0	0%					0.0	0%	1,360.0	21%		
Overseas Equities																
North America	262.9	21%	641.5	31%							0.0	0%	904.4	14%		
Europe	243.0	19%	138.6	7%							153.3	10%	534.9	8%		
Japan	121.2	10%	69.2	3%							84.7	5%	275.1	4%		
Pacific	129.1	10%	54.5	3%									183.6	3%		
Emerging Markets	82.9	7%	107.7	5%	117.1	14%					0.0	0%	307.7	5%		
Global	0.0	0%	79.0	4%	42.1	5%					0.0	0%	121.1	2%		
	839.1	66%	1,090.5	53%	159.2	19%					238.0	15%	2,326.8	35%		
Private Equity					19.2	2%					278.8	18%	298.0	5%		
Inflation protection																
Property																
UK Commercial									431.1	66%			431.1	7%		
UK Commercial - Local									37.2	6%			37.2	1%		
UK Strategic Land Pooled - UK									32.7	5%			32.7	0%		
Pooled - Overseas									34.5	5%	160.7	10%	195.2	3%		
									116.6	18%	32.3	2%	148.9	2%		
									652.1		193.0	12%	845.1	13%		
Infrastructure					32.5	4%					358.3	23%	390.8	6%		
Inflation Linked											346.6	22%	346.6	5%		
Income																
UK Bonds																
Gilts					193.7	23%							193.7	3%		
Corporate Bonds																
					193.7	23%							193.7	3%		
Overseas Bonds																
Corporate Bonds					299.2	35%							299.2	5%		
					299.2	35%							299.2	5%		
Credit					150.6	18%					55.6	4%	206.2	3%		
Liquidity																
Cash/Currency	0.0	0%	50.5	2%	0.1	0%	0.0	0%	0.0				111.4	7%	162.0	2%
Short bonds									149.4	100%			149.4	2%		
Total	1,274.5	19%	2,065.6	31%	854.5	13%	149.4	2%	652.1	10%	1,581.7	24%	6,577.8			
Previous Qtr Totals	1,301.1	20%	2,095.4	32%	890.0	13%	164.0	2%	572.5	9%	1,604.6	24%	6,627.6			

7. The value of the Fund's investments has decreased by £49.8 million (0.8%) since the previous quarter as the market responded to the Russian invasion of Ukraine. Over the last 12 months the value has increased by £475.2 million (7.8%).

8. The table below shows the unaudited Fund Account for 2021/22 with the full year figures for 2020/21.

Full Year Full Year

Summary Fund Account	2021/22	2020/21
	£000	£000
Employer contributions	(165,539)	(201,395)
Member contributions	(51,127)	(49,638)
Transfers in from other pension funds	(5,859)	(5,580)
Pensions	186,770	179,425
Commutation of pensions and lump sums	34,297	31,607
Lump sum death benefits	6,945	5,237
Payments to and on account of leavers	8,893	13,086
Net (additions)/withdrawals from dealings with members	14,380	(27,258)
Administration Expenses	3,246	2,692
Oversight & governance expenses	1,531	1,804
Investment Income	(100,016)	(84,822)
Profits & losses on disposals & changes in value	(1,069,819)	(988,631)
Taxes on income	295	172
Investment management expenses	5,457	4,370
Net Returns on Investments	(1,164,083)	(1,073,281)
Net (increase)/decrease in net assets	(1,144,926)	(1,091,672)

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	
	31 March 2022		31 December 2021		31 March 2021	
	£m	% of Fund	£m	%	£m	%
Schrodgers Fossil fuel	129.4	1.97%	85.3	1.29%	56.4	1.12%
Other Fossil fuel	82.1	1.25%	70.0	1.06%	78.6	1.29%
Total Fossil fuel	211.5	3.21%	155.4	2.34%	135.1	2.21%
Sustainable & Renewable	486.4	7.39%	293.8	4.43%	160.3	2.63%

11. In the most recent quarter the value of energy companies globally rose significantly due to market movements as the world reacted to the Russian invasion of Ukraine and the subsequent sanctions. This has had a corresponding impact on holdings within the Fund on both our Oil

and Gas holdings and our renewable energy investments as prices have increased in the sector. Schroders gained nearly £25m 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 of 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 six specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, 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 now significantly exceed 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 total of the Aegon Sustainable Diversified Growth fund has been recognised as sustainable in its entirety, following a year of careful monitoring. A further step change is anticipated next quarter following our investment of £320m in the LGPS Central Global Sustainable Active Equity Fund.
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 March 2022			31 December 2021	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	435,415	34.2%	35%	434,553	33.4%
Overseas Equities:	839,065	65.8%	65%	866,554	66.6%
North America	262,857	20.6%	20%	268,245	20.6%
Europe	243,048	19.1%	20%	262,050	20.1%
Japan	121,170	9.5%	10%	125,694	9.6%
Pacific Basin	129,086	10.1%	10%	125,540	9.7%
Emerging Markets	82,904	6.5%	5%	85,025	6.5%
Cash	0	0.0%	0%	0	0.0%
Total		1,274,480		1,301,107	

22. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities		1,519	-1,519
Overseas Equities			
North America			0
Europe			0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	1,519	-1,519

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 March 2022			31 December 2021	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	924,559	44.8%	45.0%	912,784	43.6%
Overseas Equities	1,090,544	52.8%	54.5%	1,152,548	55.0%
North America	641,504	31.1%	32.1%	709,473	33.9%
Europe	138,607	6.7%	6.9%	152,027	7.3%
Japan	69,171	3.3%	3.5%	64,777	3.1%
Pacific Basin	54,530	2.6%	2.6%	51,103	2.4%
Emerging Markets	107,687	5.2%	5.4%	91,323	4.4%
Global Small Cap	79,045	3.8%	4.0%	83,845	4.0%
Cash	50,526	2.4%	0.5%	30,095	1.4%
Total	2,065,629			2,095,427	

24. The table below summarises transactions within the quarter.

Sector	Purchases	Sales	Net Purchases
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	£000	£000	£000
UK Equities	54,844	57,089	-2,245
Overseas Equities			
North America	79,364	120,384	-41,020
Europe	25,013	24,526	487
Japan	11,294	3,451	7,843
Pacific Basin	5,413	5,922	-509
Emerging Markets	30,330	7,965	22,365
Global Small Cap	0		0
Totals	206,258	219,337	-13,079

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		31 December 2021	
	Portfolio £000	%	Portfolio £000	%
Global equity	42,112	5%	43,212	5%
EM equity active	117,113	14%	129,144	15%
Corporate bonds	299,247	35%	321,712	36%
Gilts	193,725	23%	208,456	23%
Private Equity	19,243	2%	12,235	1%
Infrastructure	32,500	4%	15,436	2%
Credit	150,585	18%	159,712	18%
Cash	89	0%	59	0%
Total	854,614		889,966	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	23,012	22,300	712
Corporate Bonds	0		0
Equities			
UK	0		0
Emerging Markets	0		0
Global	0		0
Private Equity	5,091		5,091
Infrastructure	17,057		17,057
Credit			0
Totals	45,160	22,300	22,860

Another £17.1m 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
14/01/2022	Finlay House, West Nile Street, Glasgow	Assignment and Variation
17/01/2022	Chantry Court, Bristol	Purchase
17/01/2022	Concorde Park, Fareham	Purchase
17/01/2022	121-139 Queen Street, Cardiff	Deed of Assignment of Arrears
23/02/2022	Greybrook House, Brook St, London	Deed of Variation to existing lease
23/02/2022	21 Leicester Street, Northwich	Contract for the sale of the premises
08/03/2022	Unit 1 Technology Drive, Rugby Unit 6100 Richardson Way, Crosspoint Business Park,	Rent review
22/03/2022	Coventry	Section 106 Agreement
22/03/2022	Concorde Park, Segensworth, Fareham	Collateral Warranties
23/03/2022	Suite 301 Bridlesmith House, Nottingham	Rent Review
29/03/2022	Unit 1, Technology Drive, Rugby	Deed of Variation

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.

	31 March 2022		31 December 2021	
	£000	%	£000	%
Private Equity	278,800	19.0%	275,100	18.8%
Infrastructure	358,300	24.4%	348,000	23.8%
Credit	55,600	3.8%	54,000	3.7%
Property Funds	193,000	13.1%	188,200	12.9%
Aegon DGF	346,600	23.6%	333,900	22.8%
Equity Funds	238,000	16.2%	264,100	18.0%
Total	1,470,300		1,463,300	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-3,264	5,334	-8,598
Infrastructure	-3,106		-3,106
Credit			0
Property Funds	2,464	2,912	-448
Aegon DGF	25,000		25,000
Equity Funds			0
Totals	21,094	8,246	12,848

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 (principally AstraZeneca, Chipotle, Shell, Total, BHP and Rio Tinto). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. An officer attended the LAPFF business meeting on 26th January 2022. This was reported to committee in the April 2022 meeting.
35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Significant work took place following the invasion of Ukraine to evaluate the extent of investments in Russian stocks and the options for the Fund, which was followed by a formal statement of the Fund's desire to sell these stocks if/when possible. The PLSA held its annual ESG Conference which was attended by an officer. Preparations were made for the transition into the LGPS Central Global Sustainable Equity Active Fund.
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 23/05/2022)

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