

**12 February 2026**

**Agenda Item: 11**

## **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 22 January 2026 and makes recommendations as follows:-
  - 1) Maintain a medium risk appetite with a 0.8% adjustment to the 5% return assumed in the triennial valuation, taking the target return to 5.8% from 1<sup>st</sup> April 2026
  - 2) Use the government's prescribed template to express the Fund's strategic asset allocation (SAA)
  - 3) Adjust the strategic asset allocation for 2026/27 as per Table 1.

#### **Information and Advice**

2. The Working Party met on 22 January 2026. 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.

#### **Strategic Asset Allocation (SAA) Review**

3. The Working Party considered a report from William Bourne, independent adviser to the fund. The report considered the market environment and risks in the Fund.
4. The Working Party considered the target return of the Fund in the context of the draft results of the Triennial Valuation. The 0.8% adjustment is consistent with the previous year and considered appropriate to represent a medium risk appetite. This approach, applied to the 5% discount rate results in a target return of 5.8% from 1 April 2026.
5. The changes affecting the Fund under the Pensions Act draft legislation limit the Fund to two options to set the SAA. The Fund can delegate to the pool, letting them decide how best to allocate assets to deliver high-level objectives set by the Fund, or use the prescribed template to set the allocation by asset class (as defined in the table). Asset classes can be combined, but not divided into more granular categories. The template is at a higher level than the

Fund's historic SAA and does not go into the same level of detail. But it does allow the Fund to set the broad structure of the SAA, and thus to ensure that the allocations to its broad categories are implemented. This will provide some assurance that the Fund is mitigating risk appropriately and provides a structure for assessing Pool performance. For this reason, the Working Party felt this was the preferred approach, at least in early years.

6. However there are some areas where the Fund's current allocation does not fit neatly into the template, and for the purpose of the 2026 SAA these are expressed in Table 1 separately and with footnotes for clarity. The Fund will not formally be able to include this detail in future Investment Strategy Statements. Engagement will continue with LGPS Central to ensure an appropriate interpretation of our allocations as their asset class offerings develop.
7. The Fund reviews its strategic asset allocation annually to ensure it is appropriate. The report reviewed the Fund's SAA in the light of the triennial valuation and the current economic outlook. The proposals reflect the continued de-risking of the Pension Fund investments as it matures and a recognition of inflation as a key risk to the sustainability of the Fund.
8. The Working Party agreed to recommend the following allocations to committee.

Table 1

<b>Asset class</b>	<b>NPF Category</b>	<b>% 2025 SAA</b>	<b>% 2026 SAA</b>	<b>Long-term SAA</b>
Listed equity	Growth	49	48	46
Private Equity	Growth	5	4	4
<b>GROWTH</b>		<b>54</b>	<b>52</b>	<b>50</b>
UK Gov bonds (ILGs)*	Inflation	5	8	9
Real Estate	Inflation	9	9	9
Infrastructure	Inflation	9.3	9	9
Other alternatives**	Inflation	6.2	5	5
<b>INFLATION</b>		<b>29.5</b>	<b>31</b>	<b>32</b>
Credit***	Income	6.75	6.5	6.5
UK Gov bonds (conv.)*	Income	3.5	5	6
Private Credit	Income	2.25	2.5	2.5
<b>INCOME</b>		<b>12.5</b>	<b>14</b>	<b>15</b>
Cash	Liquidity	4	3	3
<b>LIQUIDITY</b>		<b>4</b>	<b>3</b>	<b>3</b>

*\*The MHCLG template only offers one line for all U.K. Government bonds. These two asset classes will be combined in the Investment Strategy Statement if required to comply with regulations, but the investment objectives delivered by gilts and ILGs are so different (and hence in different categories) so are set out separately here.*

*\*\* For the 2026 SAA this means the Aegon Diversified Growth Fund which targets an inflation linked return. The 'Other alternatives' asset class may not be the correct match for this allocation and this element may move elsewhere once LGPS Central's 'Other alternatives' offer is clarified.*

*\*\*\*Foreign government bonds are included by MHCLG in this category, though their attributes may differ from corporate credit.*

9. In accordance with the LGPS Central Climate Risk Report's recommendations, climate change considerations have been integrated into the advice and recommendations in the report.
10. In future years the Fund will be required to take investment advice from the pool and in anticipation of this LGPS Central joined the Working Party to provide their perspective on the issues discussed.

### **Local Investment**

11. The new regulations require that the Fund includes in its Investment Strategy Statement ("ISS"), a high-level approach to Local Investment, including its target area, its approach to risk, and its target allocation range.
12. The Fund has invested in Nottingham and Nottinghamshire for many years and it is consistent with our existing investment belief that domestic assets, whether listed or not, are attractive as a match against future liabilities. Where two equivalent opportunities are available, investment managers have always been encouraged to invest more locally.
13. The Working Party discussed the new requirements and the different options for defining 'local' and the benefits and risks of local investment.

### **Responsible Investment training**

14. Responsible investment training was provided by LGPS Central.

### **Statutory and Policy Implications**

15. 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 approve the following amendments to the Strategic Asset Allocation:

- 1) Maintain a medium risk appetite with a 0.8% adjustment to the 5% return assumed in the triennial valuation, taking the target return to 5.8% from 1<sup>st</sup> April 2026
- 2) Use the government's prescribed template to express the Fund's strategic asset allocation (SAA)
- 3) Adjust the strategic asset allocation for 2026/27 as per Table 1.

**Nigel Stevenson**

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

**For any enquiries about this report please contact: Tamsin Rabbitts**

### **Constitutional Comments (SSR 29/01/2026)**

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

### **Financial Comments (TMR 27/01/2026)**

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