

14 September 2023

Agenda Item: 8

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 2023.

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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 2023 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	
	30 June 2023		Benchmark	31 Mar 2023		30 June 2022	
	£m	%		£m	%	£m	%
Growth	4,009	62.0%	60%	4,008	62.3%	3,683	58.6%
Inflation Protection	1,575	24.4%	28%	1,601	24.9%	1,660	26.4%
Income	647	10.0%	10%	633	9.8%	649	10.3%
Liquidity	234	3.6%	2%	194	3.0%	292	4.6%
	6,465	100.0%	100%	6,436	100.0%	6,283	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 £506.8m or 7.8% 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 2023 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	446.6	34%	666.0	37%	0.0	0%					0.0	0%	1,112.6	17%
Overseas Equities														
North America	269.4	21%	672.4	37%							0.0	0%	941.8	15%
Europe	256.3	20%	140.8	8%							160.0	10%	557.1	9%
Japan	127.3	10%	65.1	4%							71.1	5%	263.5	4%
Pacific	121.3	9%	49.1	3%									170.4	3%
Emerging Markets	77.9	6%	107.4	6%	126.9	11%					0.0	0%	312.2	5%
Global	0.0	0%	73.7	4%	366.0	31%					0.0	0%	439.7	7%
	852.2	66%	1,108.5	61%	492.9	41%					231.1	15%	2,684.7	42%
Private Equity					34.8	3%					176.6	11%	211.4	3%
Inflation protection														
Property														
UK Commercial									369.3	68%			369.3	6%
UK Commercial - Local									30.4	6%			30.4	0%
UK Strategic Land Pooled - UK									2.0	0%			2.0	0%
Pooled - Overseas									37.3	7%	170.4	11%	207.7	3%
									539.5		213.6	14%	753.1	12%
Infrastructure					106.1	9%					400.7	26%	506.8	8%
Inflation Linked											315.3	20%	315.3	5%
Income														
UK Bonds														
Gilts					126.5	11%							126.5	2%
Corporate Bonds					126.5	11%							126.5	2%
Overseas Bonds														
Corporate Bonds					291.9	24%							291.9	5%
					291.9	24%							291.9	5%
Credit					144.6	12%					84.3	5%	228.9	4%
Liquidity														
Cash/Currency	0.0	0%	40.0	2%	0.2	0%	0.0	0%	0.0		126.3	8%	166.5	3%
Short bonds							67.1	100%					67.1	1%
Total	1,298.8	20%	1,814.5	28%	1,197.0	19%	67.1	1%	539.5	8%	1,547.9	24%	6,464.8	
Previous Qtr Totals	1,287.0	20%	1,772.1	28%	1,195.0	19%	86.7	1%	536.1	8%	1,559.2	24%	6,436.1	

7. The value of the Fund's investments has increased by £28.7 million (0.4%) since the previous quarter. Over the last 12 months the value has increased by £181.8 million (2.9%).

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

Summary Fund Account	Q1	Full Year
	2023/24	2022/23
	£000	£000
Employer contributions	(34,755)	(175,315)
Member contributions	(10,360)	(54,643)
Transfers in from other pension funds	(3,848)	(18,937)
Pensions	53,613	197,937
Commutation of pensions and lump sums	11,239	36,224
Lump sum death benefits	1,929	6,202
Payments to and on account of leavers	1,163	17,991
Net (additions)/withdrawals from dealings with members	18,981	9,459
Administration Expenses	12	2,687
Oversight & governance expenses	(289)	1,701
Investment management expenses	(10,588)	21,838
Investment Income	(37,271)	(90,118)
Profits & losses on disposals & changes in value	106	204,164
Taxes on income	169	404
Net Returns on Investments	(47,584)	114,450
Net (increase)/decrease in net assets	(28,880)	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 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	
	30 Jun 2023		31 Mar 2023		30 Jun 2022	
	£m	% of Fund	£m	%	£m	%
Schrodgers Fossil fuel	102.2	1.58%	103.8	1.61%	102.9	1.56%
Other Fossil fuel	88.4	1.37%	90.8	1.41%	85.3	1.30%
Total Fossil fuel	190.6	2.95%	194.5	3.02%	188.1	2.86%
Sustainable & Renewable	810.9	12.54%	823.4	12.79%	747.6	11.37%

11. There has been some easing in oil and energy prices globally recently, but they remain high compared to previous levels. 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 compared to before the Russian invasion of Ukraine.
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 lost £6.6m 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 2022 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves which was presented to Committee in December 2022.
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).

	30 Jun 2023			31 Mar 2023		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	446,637	34.4%	35%	448,630	34.9%	
Overseas Equities:	852,195	65.6%	65%	838,347	65.1%	
North America	269,437	20.7%	20%	255,698	19.9%	
Europe	256,327	19.7%	20%	255,513	19.8%	
Japan	127,299	9.8%	10%	123,582	9.6%	
Pacific Basin	121,253	9.3%	10%	124,167	9.6%	
Emerging Markets	77,879	6.0%	5%	79,387	6.2%	
Cash	0	0.0%	0%	0	0.0%	
Total	1,298,832			1,286,977		

22. There were no sales or purchases during the quarter.

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 Jun 2023			31 Mar 2023		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	665,956	36.7%	40.0%	664,622	37.5%	
Overseas Equities	1,108,547	61.1%	59.5%	1,086,629	61.3%	
North America	672,378	37.1%	35.7%	667,081	37.6%	
Europe	140,849	7.8%	7.6%	137,491	7.8%	
Japan	65,130	3.6%	3.6%	60,956	3.4%	
Pacific Basin	49,133	2.7%	2.8%	51,537	2.9%	
Emerging Markets	107,407	5.9%	5.8%	99,844	5.6%	
Global Small Cap	73,650	4.1%	4.0%	69,720	3.9%	
Cash	40,043	2.2%	0.5%	20,821	1.2%	
Total	1,814,546			1,772,072		

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	36,295	21,786	14,509
Overseas Equities			
North America	67,779	97,047	-29,268
Europe	22,525	16,190	6,335
Japan	10,140	6,425	3,715
Pacific Basin	0	0	0
Emerging Markets	8,165	0	8,165
Global Small Cap	3,729	0	3,729
Totals	148,633	141,448	7,185

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.

	30 June 2023		31 Mar 2023	
	Portfolio £000	%	Portfolio £000	%
Global equity	365,994	31%	357,228	30%
EM equity active	126,928	11%	130,719	11%
Corporate bonds	291,903	24%	296,110	25%
Gilts	126,509	11%	133,618	11%
Private Equity	34,832	3%	30,543	3%
Infrastructure	106,104	9%	103,126	9%
Credit	144,583	12%	143,468	12%
Cash	179	0%	177	0%
Total	1,197,032		1,194,989	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	11,353	10,920	433
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Private Equity	6,491	1,569	4,922
Infrastructure	3,581		3,581
Credit			0
Totals	21,425	12,489	8,936

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
27/04/2023	Unit 4A Isabella Court, Mansfield	Lease
03/05/2023	Unit 3, Plot 6200, Richardson Way, Crosspoint, Coventry	Engrossment Lease
04/05/2023	Unit 1, Plot 6100 Cross Point Business Park, Coventry	Two side letters
15/05/2023	Chantry Court, Bristol	Rent Review Memorandum
01/06/2023	Unit 4 Technology Drive, Rugby	Rent Review Memorandum

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 2023		31 Mar 2023	
	£000	%	£000	%
Private Equity	176,600	12.4%	211,700	14.4%
Infrastructure	400,700	28.2%	404,900	27.5%
Credit	84,300	5.9%	59,600	4.0%
Property Funds	213,600	15.0%	231,000	15.7%
Aegon DGF	315,300	22.2%	326,300	22.2%
Equity Funds	231,100	16.3%	239,400	16.3%
Total	1,421,600		1,472,900	

29. The movement between Private Equity and Credit reflects the recategorisation of the Dorchester Credit Secondaries fund V as agreed by the Pension Fund Committee in March 2023.

30. The table below summarises transactions within the quarter.

Sector	Purchases	Sales	Net Purchases
	£000	£000	£000
Private Equity	3,761	4,986	-1,225
Infrastructure	6,208	1,318	4,890
Credit	-13,288		-13,288
Property Funds	-19,984		-19,984
Aegon DGF			0
Equity Funds			0
Totals	-23,303	6,304	-29,607

A capital distribution was received from the Dorchester Credit Opportunities fund (within Credit), and redemption proceeds were received from Keills property fund accounting for the negative purchases.

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 Schroders, LGIM and LGPS Central in addition to the LAPFF Quarterly Engagement 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 April LAPFF business meeting was attended and reported to Committee in July 23.
35. 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 April and considered such issues as voting principles, TCFD reporting and an update on Central's Net Zero policy. The new ESG tool was demonstrated and will lead to additional reporting in time.
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) That the contents of the report be noted.

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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 17/8/2023)

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