

Pension Fund Committee

8 September 2016

Overall Value of Pension Fund Investments to 30 June 2016



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Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 30 June 2016 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Pension Fund

2. Reports from the seven appointed Managers:

- Aberdeen
- AllianceBernstein
- BlackRock
- Bank of New York (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda. The value of the Fund at 30 June 2016 was £2 billion, 433.49 million.

3. The value of the Fund as at 31 March 2016 was £2 billion, 299.09 million. The value of the fund therefore increased by £134.4 million in the first quarter of 2016/17.

Allocation of New Investment Money and Withdrawal of Investment Money to Deal with Estimated Deficit

4. New investment money is allocated to Investment Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.
5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.
6. Appendix 1 details the working cash balance position of the Pension Fund and cash flow for the last four quarters. This table includes only cash held by

Durham County Council Pension Fund Bank Account. It does not include cash balances of £24.75 million held by the Managers as at 30 June 2016.

7. In determining the amount of cash to be allocated to Managers as at the quarter ended 30 June 2016, the un-invested cash balance at the end of the previous quarter, together with interest received in that quarter, is considered. This does not include cash currently held by Fund Managers.
8. The amount allocated to each Manager is subject to the need to retain enough money in the Durham County Council Pension Fund Bank account to meet the Fund's estimated net cash outflow. After taking these issues into account, it is recommended that no money be added to the sums to be allocated to the Managers for investment in the quarter.

Cash Flow Forecast 2016/17

9. Appendix 2 shows the projected cash flow for the Pension Fund for the period July 2016 to September 2017.
10. The projections set out in Appendix 2 show that the Fund is estimated to be in deficit in each quarter of the year. However, it should be noted that this is only in respect of the bank account held by the Pension Fund; income received from investments is currently held by Managers. When this is taken into account, the Pension Fund is forecasted to have a positive cash flow, apart for the quarters ending 31 December 2016 and 30 June 2017.
11. The quarterly rebalancing exercise is the mechanism by which cash can be moved from Managers to the Pension Fund if the assumptions that have been used in calculating the forecasted cash flow are realised.
12. The following assumptions have been used to calculate the cash flow forecast:
 - Dividend income receivable in 2016/17 is estimated to be £28.0m, which is based on the actual figures to 31 March 2016. This income is profiled to be received in the same pattern as in 2015/16, that is:

○ Quarter ended 30 June 2016	17%
○ Quarter ended 30 September 2016	33%
○ Quarter ended 31 December 2016	24%
○ Quarter ended 31 March 2017	26%
 - Increases in contributions in line with the Actuarial Valuation are included.
 - 'Transfer values in' are estimated at £0.500m per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.

- Payroll Paysheets (payments to pensioners) are forecast to increase by £0.100m per quarter. This figure will alter if there are large numbers of retirements in the employing authorities. It is anticipated, however, that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.
 - Payable Paysheets are forecast on the basis of the last year's profile, adjusted for known one-offs, although this can be the most volatile figure as it includes payments of lump sums and fees to Managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.
13. This is an early indication of the likely impact on the Pension Fund's cash flow forecast over the next 15 months. It will continue to be reviewed each quarter and refined to take into account new information as it becomes available.

Fund Rebalancing

14. Fund rebalancing is the mechanism by which the Pension Fund ensures that the asset allocation to Investment Managers is maintained at the levels agreed by the Pension Fund Committee and set out in the Statement of Investment Principles.
15. There was no rebalancing of the Fund in the previous quarter. However, a total of £27million was withdrawn from two Fund Managers to support the working cash balance of the Fund.
16. Relative movements in asset values held by each of the Fund's Managers over the quarter have led the Pension Fund's Advisers to recommend rebalancing back towards the benchmark allocation. Further details are set out on page 7 of the Monitoring Report. It is expected that the recommended rebalancing will take place as soon as practicable.

Recommendation

17. Members are asked to note the information contained in this report.

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Actual Cash Flow – for the period 1 July 2015 to 30 June 2016

Quarter Ended	30.09.15		31.12.15		31.03.16		30.06.16	
(1)	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)
	£	£	£	£	£	£	£	£
Income								
Contributions - DCC	16,800,000	16,584,386	16,800,000	16,560,615	16,800,000	16,612,581	16,650,000	16,929,884
Contributions - Other	7,400,000	8,202,546	7,500,000	8,003,099	7,500,000	7,784,726	7,800,000	8,801,635
Unfunded pensions recharges	1,200,000	1,137,723	1,130,000	880,714	1,130,000	1,228,584	1,120,000	824,479
Transfer Values	500,000	272,978	500,000	385,463	500,000	1,705,991	500,000	147,693
Other income	250,000	1,125,117	250,000	978,590	250,000	4,627,867	1,000,000	1,975,669
Funds recovered from Managers	0	15,443,676	0	0	0	0	0	17,000,000
Interest on short term investments	60,000	68,835	60,000	57,612	45,000	34,466	20,000	19,395
Total Income	26,210,000	42,835,261	26,240,000	26,866,093	26,225,000	31,994,215	27,090,000	45,698,755
Expenditure								
Payroll Paysheets	22,300,000	26,371,670	22,400,000	22,697,764	22,500,000	22,796,589	22,700,000	22,981,433
Payables Paysheets (incl. Managers' fees)	10,000,000	11,571,152	7,000,000	14,000,853	10,000,000	9,428,192	10,000,000	12,117,843
Funds transferred to Managers	0	0	15,000,000	18,182,168	9,555,000	19,055,000	2,760,000	520,000
Other Expenditure	0	0	0	0	0	3,960,143	0	12,394
Total Expenditure	32,300,000	37,942,822	44,400,000	54,880,785	42,055,000	55,239,924	35,460,000	35,631,670
Surplus / (-) Deficit	-6,090,000	4,892,439	-18,160,000	-28,014,692	-15,830,000	-23,245,709	-8,370,000	10,067,085
Balance at Bank (opening)		58,322,978		69,590,581		41,575,889		17,904,838
Balance at Bank (closing)		69,590,581		41,575,889		17,904,838		27,554,055

Projected Cash Flow – including forecasted dividends receivable by Fund Managers for the period 1 July 2016 to 30 September 2017

Quarter Ended	30.09.16	31.12.16	31.03.17	30.06.17	30.09.17
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Income					
Contributions - DCC	16,650,000	16,650,000	16,650,000	16,650,000	16,650,000
Contributions - Other	8,200,000	8,200,000	8,200,000	8,200,000	8,200,000
Unfunded pensions recharges	1,120,000	1,120,000	1,120,000	1,120,000	1,120,000
Transfer Values	500,000	500,000	500,000	500,000	500,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	10,000,000	0	0	0	0
Interest on short term investments	30,000	20,000	10,000	5,000	5,000
Total Income	38,500,000	28,490,000	28,480,000	28,475,000	28,475,000
Expenditure					
Payroll Paysheets	22,800,000	22,900,000	23,000,000	23,100,000	23,200,000
Payables Paysheets (incl. Managers' fees)	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Funds transferred to Managers	4,920,000	3,770,000	760,000	0	0
Other Expenditure	0	0	0	0	0
Total Expenditure	38,720,000	37,670,000	34,760,000	34,100,000	34,200,000
Surplus / (-) Deficit	-220,000	-9,180,000	-6,280,000	-5,625,000	-5,725,000
Balance at Bank (opening)	27,554,055	27,334,055	18,154,055	11,874,055	6,249,055
Balance at Bank (closing)	27,334,055	18,154,055	11,874,055	6,249,055	524,055
Dividends Received by Managers	9,240,000	6,720,000	7,280,000	4,760,000	9,240,000
Net Cash Flow Position	9,020,000	-2,460,000	1,000,000	-865,000	3,515,000