

## Pension Fund Committee

1<sup>st</sup> September 2009

### Durham Pension Fund Rebalancing and Cash Allocation Policy



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**Stuart Crowe, Corporate Director Resources**

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#### **Purpose of the Report**

1. This report considers the mechanics of the current rebalancing policy and its implications for the Fund's cash allocation. It highlights the need to change the current method in order to minimise costs to the Pension Fund and seeks authorisation for such a change.

#### **Background**

2. As Members will remember at the last meeting it was agreed that the Officers, in consultation with the Advisors, rebalance the Fund on a quarterly basis in line with the original percentages of asset allocation for the Fund. The Members could question the Officers and Advisors about the rebalancing at the next Committee meeting.
3. Normally, on a quarterly basis any "surplus money" in the Pension Fund cash account is made available to the Managers after taking into account the current and future cash flows. In recent times this excess money has not been allocated due to there being no rebalancing policy.
4. At present unless a change is made, rebalancing will be done between the Meetings when the figures are available from the Managers and the Advisors, but the allocation of new Cash to the Managers will be made after the Committee Meeting. This method could result in a Manager needing to sell stock, to release cash to pay to another Manager, in one month, and in the next month they could be given extra cash to invest, after the Committee's consideration of the Cash Allocation. In both these cases there will be costs to the Fund, either transaction or opportunity costs.
5. In order to minimise transaction costs and to reduce costs and simplify the procedure it is suggested the rebalancing and allocation of cash available for investment is done together, as soon as figures are available. This rebalancing would be done by the Officers in consultation with the Chairman and Vice Chairman and Advisors, with a report being presented to the next available Committee meeting for consideration by the Members.

6. In order to introduce such a change as quickly as possible I have arranged that this process be introduced immediately although if the Committee do not support this approach the effect can be reversed. I have consulted the Vice Chairman in the Chairman's absence, and attach as appendices the cash flow and the rebalancing sheet received from the Pension Fund's Advisor for the Committee's attention.

### **Recommendation**

7. It is recommended that

- the Committee approve the action I have taken and
- the Committee approve changes suggested to align the rebalancing and allocation processes in consultation with the Vice Chairman with consequential amendments being made to the reporting arrangements.

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5<sup>th</sup> August 2009  
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<i>Quarter Ended</i> (1)	30.09.08		31.12.08		31.03.09		30.06.09		30.09.09
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)	Estimate (10)
	£	£	£	£	£	£	£	£	£
Contributions - DCC	11,000,000	11,103,425	11,100,000	8,031,222	14,000,000	15,313,246	11,500,000	10,592,609	10,600,000
- Other	11,900,000	12,057,874	12,000,000	11,665,754	12,000,000	12,385,960	12,200,000	12,324,103	12,200,000
Pensions Increase	1,000,000	1,314,496	1,000,000	886,965	800,000	1,115,285	1,000,000	1,022,611	1,000,000
Transfer Values	1,500,000	2,894,547	2,000,000	820,560	1,200,000	2,449,560	1,000,000	4,318,455	1,000,000
Loans Repaid	0	0	0	0	0	0	0	0	0
Gross Dividend & Interest	1,300,000	1,034,239	1,000,000	1,138,720	700,000	1,081,566	1,000,000	745,645	600,000
Total Income	26,700,000	28,404,581	27,000.00	22,543,221	28,700,000	32,345,616	26,700,000	29,003,423	25,400,000
Payroll Paysheets	15,300,000	15,821,915	16,000,000	15,839,087	16,000,000	18,778,221	16,000,000	15,190,368	16,000,000
Payables Paysheets (incl. Managers' fees)	11,000,000	9,917,182	11,000,000	5,346,475	8,000,000	7,080,087	8,000,000	7,614,475	8,000,000
Total Expenditure	26,300,000	25,739,097	27,000,000	21,185,562	24,000,000	25,858,308	24,000,000	22,804,843	24,000,000
Surplus / (Deficit)	400,000	2,665,484	0	1,357,659	4,700,000	6,487,308	2,700,000	6,198,580	1,400,000
Net Capital payments/(receipts)		4,247,426		2,933,061		574,768		2,996,899	
Balance at Bank (opening)		75,326,504		79,258,915		85,413,855		95,034,638	
Balance at Bank (closing)		79,258,915		85,413,855		95,034,638		95,385,172	
Allocated to Managers		50,658,697		50,658,697		50,658,697		50,658,697	
Money paid/(recovered) to/(from Manager)		0		0		0		0	

REBALANCING OF Durham P/F ASSETS													
Strategic Fund	Benchmark Proportion	Mandate Type			After Rebalancing								
Matching Fund	20%	Government Bonds			20.0%	265.86							
Investment Fund	80%	Various			80.0%	1063.44							
					100.0%	1329.30							
								95%		105%			
			30-Jun-09		+/-			5% Tolerance					
			Value	%	Target	Allocation	Rebalanced	Min		Max		Outside Limit	
						£m	£m	%	%	£m.	%	£m.	
<b>Matching Bond Manager</b>													
RLAM			296.10	22.3%	20.0%	-22.3	273.82	20.6%	19.0%	252.57	21.0%	279.15	0.00 -16.95
<b>UK Equity Manager</b>													
Blackrock			212.80	16.0%	20.0%	61.0	273.82	20.6%	19.0%	252.57	21.0%	279.15	39.77 0.00
<b>Broad Bond Manager</b>													
AllianceBernstein			213.10	16.0%	16.0%	6.0	219.05	16.5%	15.2%	202.05	16.8%	223.32	0.00 0.00
<b>Global Equity Manager</b>													
Edinburgh Partners			343.40	25.8%	28.0%	39.9	383.34	28.8%	26.6%	353.59	29.4%	390.81	10.19 0.00
<b>DAA Manager</b>													
Barings			114.40	8.6%	8.0%	-4.9	109.53	8.2%	7.6%	101.03	8.4%	111.66	0.00 -2.74
<b>Global Property Manager</b>													
CBRE 1			32.20	2.4%									
CBRE 2			21.10	1.6%									
Allocated undrawn cash							53.0						
Sub-Total			53.30	4.0%	8.0%	0.0	53.30	4.0%	7.6%	101.03	8.4%	111.66	47.73 0.00
<b>Investment Fund sub-total</b>													
			937.00	70.5%	80.0%	102.04	1039.04	78.2%	76.0%	1010.27	84.0%	1116.61	73.27 0.00
<b>Cash</b>													
Internal Cash			53.00				0.0						
Cash at Custodian			43.20				0.0						
Cash sub-total			96.20	7.2%	0.0%	79.8	16.44	1.2%	0.0%	0.00	0.0%	0.00	0.00 -96.20
<b>Fund Total</b>													
			1329.30	100.0%	100.0%	159.51	1329.30	100.0%					131.19 -98.94