

Pension Fund Committee

16 March 2023



Overall Value of Pension Fund Investments to 31 December 2022

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1. To provide an update to Members on the:
 - (a) overall value of the Pension Fund's investments at 31 December 2022;
 - (b) movement in the cash balance during the last four quarters; and
 - (c) projected cash flow position up to 31 March 2024.

Executive Summary

2. The overall value of the Fund as at 31 December 2022 was £3.232 billion and the cash balance held in the Durham County Council Pension Fund bank account was £30.950 million. Fund managers also held cash of £15.211 million at that date. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters.
3. The cash flow forecast includes the recovery of funds from Fund Manager – BCPP, which will be drawn from the Listed Alternatives portfolio to match the value of investments being made in private markets. Appendix 2 sets out the cash flow forecast up to the quarter ending 31 March 2024.
4. The quarter ending 31 March 2023 projected figures shown within Appendix 2 include income from the BCPP Equity Alpha fund of £16 million to cover BCPP drawdowns for February and March.
5. In June 2022 a commitment of £18 million was allocated to Foresight Regional Investment IV LP and the forecast within Appendix 2 includes capital calls on this sum estimated at £1m each quarter.
6. Should cash transfers to/from fund managers be excluded from the cash flow forecast, the net cash outflows in each of the future quarters are between £4 million and £6 million.

Recommendation

7. Members are asked to note the information contained within this report.

Background

Value of the Pension Fund

8. Reports from the four listed fund managers, namely:

- AB
- BCPP
- CB Richard Ellis
- Mondrian

are included in Part B of today's agenda.

9. The value of the Fund at 31 December 2022 was £3.232 billion compared to £3.152 billion at 30 September 2022. This is an increase of £80 million or 2.51% in the third quarter of 2022/23.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

10. New investment money is allocated to fund managers when the Pension Fund has cash which is not required to be available as a working cash balance, for example to pay pensioners or fees.
11. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers.
12. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 December 2022, the cash balance held in the Durham County Council Pension Fund bank account was £30.950 million. In addition to this, not included in this table, fund managers were holding cash of £15.211 million at 31 December 2022.
13. During the quarter ending 31 December 2022 further drawdowns totalling £28.352 million were made to BCPP to invest in private equity, infrastructure and private credit. No drawdowns were made to Foresight Regional Investment IV LP.

Cash Flow Forecast

14. Appendix 2 shows the projected cash flow for the Pension Fund for the period 1 January 2023 to 31 March 2024. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by managers.
15. In the following three quarters, it is anticipated that funds will be drawn from the Listed Alternatives portfolio to match the funds expected to be invested in private markets. In order to maintain the Fund's working cash position, the forecast for the quarter ending 31 March 2023 includes income due to be received from the BCPP Equity Alpha fund.
16. The forecast indicates net cash outflows in future quarters of between £3 million and £6 million. The size of the outflows are exacerbated due to the early receipt of Durham County deficit contributions in April 2023, the impact of which is an apparent reduction in future contributions receivable of £1.375 million per quarter.
17. The following assumptions have been used in the cash flow forecast:
 - (a) Annual investment income receivable is estimated to be £20 million and profiled to be received as follows:

| | |
|---------------------------------------|-----|
| (i) Quarter ended 31 March 2023 | 25% |
| (ii) Quarter ended 30 June 2023 | 25% |
| (iii) Quarter ended 30 September 2023 | 25% |
| (iv) Quarter ended 31 December 2023 | 25% |
 - (b) Increases in contributions have been included in line with actuals, until the new employer contribution rates resulting from the 2022 actuarial valuation are made available.
 - (c) Transfer values due in are estimated at £1.250 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
 - (d) Pensions increase applied is the estimated pension indexation rate of 9% for 2022/23 with effect from 4 April 2022.
 - (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.20 million per quarter. This figure will alter if there are large numbers of retirements from 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.

- (f) Payable paysheets are forecast on the basis of the previous year's profile and adjusted for known one-off payments, 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.
18. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and is refined to take any new information into account as it becomes available.

Fund Rebalancing

19. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to fund managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement. It is also the means by which cash is moved to or from managers as a consequence of the cash flow forecasts.
20. As reported to the committee in December a rebalancing exercise took place during this quarter. The Fund became significantly overweight in Global Equity Alpha, whilst Gilts became significantly underweight relative to its strategic allocation within the portfolio. Officers therefore took steps to rebalance from the overweight equity position, into both Gilts and Multi-Asset Credit. This rebalancing is reflected in reporting for quarter end 31st December 2022. £82.4m transferred from Global Equity Alpha into Sterling Index-linked Bonds £65.4m and Multi-Asset Credit (MAC) £17m.
21. The Committee approved a policy approach to rebalancing at the September meeting. A rebalancing exercise took place in reporting quarter end 31st March 2023 in line with the agreed policy. Full details will be provided of all rebalancing carried out at the June committee.
22. Appendix 3 shows the approved policy approach to rebalancing.

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Actual Cash Flow – For the period 1 January 2022 to 31 December 2022

| Quarter Ended | 31.03.22 | | 30.06.22 | | 30.09.22 | | 31.12.22 | |
|---|-------------------|-------------------|--------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
| | Estimate | Actual | Estimate | Actual | Estimate | Actual | Estimate | Actual |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Cash Inflows | | | | | | | | |
| Contributions - DCC | 16,400,000 | 16,522,541 | 16,400,000 | 17,833,757 | 16,500,000 | 16,997,176 | 17,500,000 | 19,549,856 |
| Contributions - Other | 12,900,000 | 13,194,458 | 12,900,000 | 13,871,960 | 13,500,000 | 13,842,779 | 13,500,000 | 15,335,155 |
| Unfunded pensions recharges | 1,050,000 | 972,201 | 1,050,000 | 944,910 | 1,050,000 | 672,966 | 1,050,000 | 1,264,128 |
| Transfer Values | 1,250,000 | 1,073,906 | 1,250,000 | 1,320,801 | 1,250,000 | 3,023,323 | 1,250,000 | 1,805,173 |
| Other income | 1,500,000 | 1,823,950 | 1,500,000 | 1,052,313 | 1,500,000 | 716,378 | 1,500,000 | 1,072,000 |
| Funds recovered from Managers | 50,000,000 | 49,904,456 | 16,000,000 | 9,616,000 | 11,400,000 | 25,130,445 | 36,000,000 | 34,006,550 |
| Interest on short term investments | 1,500 | 16,973 | 2,500 | 70,476 | 55,000 | 112,025 | 45,000 | 196,816 |
| Total Cash Inflow | 83,101,500 | 83,508,485 | 49,102,500 | 44,710,217 | 45,255,000 | 60,495,092 | 70,845,000 | 73,229,679 |
| Cash Outflows | | | | | | | | |
| Payroll Paysheets | 28,400,000 | 28,318,989 | 29,500,000 | 29,172,331 | 29,700,000 | 29,478,766 | 29,900,000 | 30,251,207 |
| Payables Paysheets (incl. Managers' fees) | 10,000,000 | 10,243,308 | 10,000,000 | 14,691,628 | 11,000,000 | 10,348,715 | 11,000,000 | 11,138,617 |
| Funds transferred to Managers | 19,000,000 | 13,329,520 | 24,000,000 | 9,646,960 | 21,500,000 | 16,975,527 | 25,000,000 | 30,781,357 |
| Other Expenditure | 1,000 | 853 | 1,000 | 910 | 1,000 | 883 | 1,000 | 1,420 |
| Total Cash Outflows | 57,401,000 | 51,892,671 | 63,501,000 | 53,511,829 | 62,201,000 | 56,803,890 | 65,901,000 | 72,172,601 |
| Net Cash Inflow / (-) Outflow | 25,700,500 | 31,615,815 | -14,398,500 | -8,801,612 | -16,946,000 | 3,691,201 | 4,944,000 | 1,057,078 |
| Balance at Bank (opening) | | 14,922,665 | | 46,805,379 | | 37,701,207 | | 28,592,226 |
| Balance at Bank (closing) | | 46,805,379 | | 37,701,207 | | 28,592,226 | | 30,950,576 |

Projected Cash Flow – For the period 1 January 2023 to 31 March 2024

| Quarter Ended | 31.03.23 | 30.06.23 | 30.09.23 | 31.12.23 | 31.03.24 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £ | £ | £ | £ | £ |
| Cash Inflows | | | | | |
| Contributions - DCC | 17,500,000 | 37,097,500 | 20,597,500 | 20,597,500 | 20,597,500 |
| Contributions - Other | 13,800,000 | 16,615,500 | 16,615,500 | 16,615,500 | 16,615,500 |
| Unfunded pensions recharges | 1,050,000 | 1,050,000 | 1,050,000 | 1,050,000 | 1,050,000 |
| Transfer Values | 1,250,000 | 1,250,000 | 1,250,000 | 1,250,000 | 1,250,000 |
| Other income | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Funds recovered from Managers | 23,100,000 | 24,000,000 | 24,000,000 | 24,000,000 | 24,000,000 |
| Interest on short term investments | 185,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Total Cash Inflow | 58,385,000 | 81,713,000 | 65,213,000 | 65,213,000 | 65,213,000 |
| Cash Outflows | | | | | |
| Payroll Paysheets | 30,100,000 | 33,220,000 | 33,420,000 | 33,620,000 | 33,820,000 |
| Payables Paysheets (incl. Managers' fees) | 11,000,000 | 11,000,000 | 11,000,000 | 11,000,000 | 11,000,000 |
| Funds transferred to Managers | 23,000,000 | 25,000,000 | 25,000,000 | 25,000,000 | 25,000,000 |
| Other Expenditure | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total Cash Outflows | 64,101,000 | 69,221,000 | 69,421,000 | 69,621,000 | 69,821,000 |
| Net Cash Inflow / (-) Outflow | -5,716,000 | 12,492,000 | -4,208,000 | -4,408,000 | -4,608,000 |
| Balance at Bank (opening) | 30,950,576 | 25,234,576 | 37,726,576 | 33,518,576 | 29,110,576 |
| Balance at Bank (closing) | 25,234,576 | 37,726,576 | 33,518,576 | 29,110,576 | 24,502,576 |
| Investment Income Received by Managers | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |

Fund Rebalancing

Proposed Ranges:

| Asset Class | Benchmark Allocation (%) | Proposed Ranges |
|--------------------|--------------------------|-----------------|
| Global Equity | 40.0 | +/-4.0 |
| EM Equity | 7.0 | +/-1.0 |
| Index Linked Gilts | 15.0 | +/-2.0 |
| Multi Asset Credit | 15.0 | +/-2.0 |
| Property | 13.0 | n/a |
| Private Markets | 10.0 | +/-1.5 |
| Total | 100.0 | |