

Pension Fund Committee

14 March 2024

Overall Value of Fund and Cashflow Management



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 2023;
 - (b) movement in the cash balance during the quarter, and:
 - (c) actual cash flows for the period 1 April 2023 to 31 December 2023 along with a cash flow forecast to 31 December 2024.

Executive Summary

2. The overall value of the Fund as at 31 December 2023 was £3.549 billion and the cash balance held in the Durham County Council Pension Fund bank account was £31.087 million. Fund managers also held cash of £34.382 million at that date.
3. No rebalancing has taken place in the quarter ending 31st December 2023.
4. Work has been ongoing to produce a revised updated cashflow model. This is shown at Appendix 1 and details the working cash balance position of the Pension Fund, actual cashflow for the last three quarters and projected cash flow to 31 December 2024.
5. Rebalancing reviews continue to be undertaken. No asset classes hit the trigger point for rebalancing requirements after the quarter end.

Recommendation

6. Members are asked to note and agree the information relating to the Fund value as at 31 December 2023 and cash flows contained within this report.

Value of the Pension Fund

7. Reports from the four listed fund managers, namely:
 - AB
 - BCPP
 - CB Richard Ellis
 - Foresight

are included in Part B of today's agenda.

8. The value of the Fund at 31 December 2023 was £3.549 billion compared to £3.354 billion at 30 September 2023. This is an increase of £195 million (or 5.81%) in the third quarter of 2023/24.

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

9. 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.
10. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers. The working cash balance requirement has been calculated as between £33 million and £35 million.
11. Additional cash was required in December 2023 to meet the pension fund obligations, with £25 million withdrawn from Global Equity Alpha, (most overweight asset class), in line with agreed policy.
12. Following the quarter end, a further £25 million was drawn down from Listed Alts (January 2024) to cover BCPP Private Market drawdowns (up to the November 2023 period).

Fund Rebalancing

13. Fund rebalancing is the mechanism by which the Pension Fund ensures 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.

14. In line with decisions taken by the Committee, periodic rebalancing is undertaken. The revised rebalancing approach reflects the change in the composition of the liquid assets held by the Fund.
15. During the quarter, no asset class hit a trigger point for rebalancing.
16. Following the quarter end, as capital calls to Private Markets continue to be made and based on the policy of Listed Alts being primarily held as a proxy for the BCPP Private Markets commitments, a withdrawal of £33 million from Listed Alts was undertaken, £9 million transferred to cash, £19 million transferred to Sterling Index Linked Bonds, and £5 million transferred to Emerging Markets Alpha.
17. The following table shows the fund balance by assets classes and fund manager:

Account Number/Account Name	As of 31-12-23 Market Value £000's	Actual Weight	Current Target Weight
ALLIANCE BERNSTEIN *	183.02	5.16%	5.00%
CBRE 1 *	216.25	6.09%	8.66%
CBRE 2 *	50.40	1.42%	1.34%
MONDRIAN *	1.92	0.05%	0.00%
BCPP GLOBAL EQUITY ALPHA FUND	1,460.47	41.15%	40.00%
BCPP STERLING INDEX LINKED BON	363.64	10.25%	10.00%
BCPP PRIVATE MARKETS	226.79	6.39%	6.10%
BCPP MULTI ASSET CREDIT FUND	554.58	15.63%	15.00%
BCPP LISTED ALT FD	140.63	3.96%	3.86%
FORESIGHT REGIONAL INVESTMENT*	2.34	0.07%	0.04%
BCPP EMERGING MARKETALPHA FUND	170.14	4.79%	5.00%
BCPP INVESTMENT GRADE CREDIT F	178.70	5.04%	5.00%
TOTALS	3,548.88	100%	100%

**Not within scope of rebalancing*

Cash Flow Forecast

18. In September 2023, Members were advised of work being undertaken to produce a revised cash flow reporting model. The initial outcome is presented to committee today.
19. Appendix 1 shows the revised cashflow model and details the working cash balance position of the Pension Fund, actual cashflow for the periods 1 April 2023 to 31 December 2024, and forecasted cash flows to the 31 December 2024.

20. The model reflects the implementation of the new strategic asset allocations and positive income generated from Investment Grade Credit. Additionally, the model now includes a forecast of the cashflow commitments agreed by Committee, to BCPP Alternatives.
21. Going forward the cashflow model will include enhanced variance analysis and will be presented to the Committee every six months.

Appendix 1

Actual Cash Flow – For the period 1 April 2023 to 31 December 2023

DCC Pension Fund - Quarterly Actuals			
Cash Flow - Opening Balance	41,257,461.35	36,818,471.86	21,517,260.04
Period	Q1 2023	Q2 2023	Q3 2023
Cash Inflows	£	£	£
<i>Pension Contribution - Employers</i>	24,169,775.94	24,317,826.75	27,900,506.58
<i>Pension Contribution - Employees</i>	8,073,585.50	8,018,883.17	9,296,819.18
<i>Pension Contribution - Deficit Payments</i>	16,974,171.44	1,433,530.26	(437,682.13)
<i>Unfunded Pension Recharges</i>	1,028,338.02	1,036,973.08	1,129,805.16
<i>Investment Grade Credit (est Jul-23)</i>	0.00	1,907,548.74	1,869,604.35
<i>Pension Transfers</i>	2,136,409.13	5,397,429.02	1,575,989.72
<i>Fund Manager Payments</i>	12,238.39	831,685.80	15,879.45
<i>Interest Earned</i>	294,818.14	540,777.66	563,851.68
<i>Fees & Overpayment</i>	101,109.44	876,263.55	240,472.98
<i>Misc inflows*</i>	1,019,182.84	702,785.59	428,552.53
<i>BCPP - Distribtuion/rebates</i>	2,953,099.50	4,288,441.41	4,460,145.69
Total Inflows	56,762,728.34	49,352,145.03	47,043,945.19
Cash Outflows			
<i>Pension Benefits Paid</i>	(42,329,020.88)	(44,154,735.69)	(40,227,007.19)
<i>HMRC - Pension Tax</i>	(3,968,398.68)	(4,385,803.29)	(4,419,072.27)
<i>Fund Manager Payments</i>	(825,143.02)	(95,409.61)	(1,143,938.77)
<i>Misc outflows*</i>	(46,456.30)	(53,130.90)	(115,847.37)
Total Outflows	(47,169,018.88)	(48,689,079.49)	(45,905,865.60)
Border To Coast			
<i>BCPP - Capital Calls</i>	(21,432,698.95)	(15,964,277.36)	(16,572,088.27)
<i>BCPP - Lst Alts Returns</i>	7,400,000.00	0.00	25,000,000.00
Total BCPP	(14,032,698.95)	(15,964,277.36)	8,427,911.73
<i>Balancing Cash Withdrawal</i>	0.00	0.00	0.00
Cash Flow - Closing Balance	36,818,471.86	21,517,260.04	31,083,251.36

Forecast Cash Flow – For the period 1 January 2024 to 31 December 2024

DCC Pension Fund - Quarterly Forecast				
Cash Flow - Opening Balance	31,083,251.36	24,940,011.04	32,973,778.00	33,207,964.81
Period	Q4 2023 31/03/2024	Q1 2024 30/06/2024	Q2 2024 30/09/2024	Q3 2024 31/12/2024
Cash Inflows	£	£	£	£
<i>Pension Contribution - Employers</i>	26,837,120.99	26,950,404.69	26,950,404.69	30,184,453.25
<i>Pension Contribution - Employees</i>	8,978,360.21	9,065,066.43	9,065,066.43	10,152,874.40
<i>Pension Contribution - Deficit Payments</i>	353,699.03	602,138.50	602,138.50	602,138.50
<i>Unfunded Pension Recharges</i>	715,183.32	1,066,445.34	1,066,445.34	1,066,445.34
<i>Investment Grade Credit (est Jul-23)</i>	1,914,268.06	1,897,140.38	1,897,140.38	1,897,140.38
<i>Pension Transfers</i>	1,741,154.06	2,959,358.71	2,959,358.71	2,959,358.71
<i>Fund Manager Payments</i>	1,900,000.00	0.00	0.00	0.00
<i>Interest Earned</i>	283,393.40	367,500.00	367,500.00	367,500.00
<i>Fees & Overpayment</i>	1,052,719.77	619,245.20	619,245.20	619,245.20
<i>Misc inflows*</i>	680,831.16	772,186.94	772,186.94	772,186.94
<i>BCPP - Distributions/rebates</i>	3,885,517.27	7,192,500.00	7,192,500.00	7,192,500.00
Total Inflows	48,342,247.26	51,491,986.19	51,491,986.19	55,813,842.73
Cash Outflows				
<i>Pension Benefits Paid</i>	(45,912,967.16)	(52,277,516.96)	(52,277,516.96)	(52,277,516.96)
<i>HMRC - Pension Tax</i>	(5,224,452.40)	(4,908,470.90)	(4,908,470.90)	(4,908,470.90)
<i>Fund Manager Payments</i>	(1,578,018.54)	(1,200,419.84)	0.00	(1,049,541.37)
<i>Misc outflows*</i>	(1,596,960.40)	(71,811.52)	(71,811.52)	(71,811.52)
Total Outflows	(54,312,398.51)	(58,458,219.23)	(57,257,799.39)	(58,307,340.76)
Border To Coast				
<i>BCPP - Capital Calls</i>	(25,173,089.08)	(28,275,000.00)	(28,275,000.00)	(28,275,000.00)
<i>BCPP - Listed Alts Returns</i>	25,000,000.00	37,275,000.00	28,275,000.00	28,275,000.00
Total BCPP	(173,089.08)	9,000,000.00	0.00	0.00
<i>Balancing Cash Withdrawal</i>	0.00	6,000,000.00	6,000,000.00	5,000,000.00
Cash Flow - Closing Balance	24,940,011.04	32,973,778.00	33,207,964.81	35,714,466.78

The Cash Flow model includes the following assumptions:-

- Pension Contributions have taken into consideration the MTFP employee pay award assumption amount of 4%, from December 2024 (including arrears);
- Deficit payments are in line with the AON Triennial Valuation Rates and Adjustments figures, with the schools' figure adjusted for academy conversions;
- Unfunded pension recharges – based on an average of April 2023 to January 2024;
- Investment Grade Credit income – based on an average of April 2023 to January 2024;
- Pension transfers – based on an average of April 2023 to January 2024;
- Fund manager transfers – quarter 4 forecast is the residual foreign cash within the Northern Trust Mondrian account, which is to be converted to GBP and transferred to the Pension Fund bank account;
- Interest earned – based on the Treasury Management team's forecast of the interest DCC will pay to the Pension Fund;
- Fees and overpayment - based on an average of April 2023 to January 2024;
- Misc. inflows - based on an average of April 2023 to January 2024;
- BCPP – Distributions/rebates - based on an average of April 2023 to January 2024;
- Pension Benefits paid – increased by the agreed increase in pensions of 6.7% from April 2024;
- HMRC – Pension Tax - based on an average of April 2023 to January 2024, as this also includes payments to HMRC for the Lifetime Allowance tax;

- Fund manager payments - are made as capital calls into Foresight Group. Data has been provided from foresight in regard to future planned capital calls on a quarterly basis which has enabled the accurate forecasting of these payments into the model.
- Misc. outflows - based on an average of April 2023 to January 2024;
- BCPP – capital calls – based on the commitments forecast produced by Mercer;
- BCPP – Listed Alts returns – Listed Alts is primarily held as a proxy for the BCPP Private Markets commitments. The cashflow assumes that the amounts paid out for Private Market drawdowns will be drawdown as cash from Listed Alts, with a 2 month lag.