

Pension Fund Committee

12 September 2024

Overall Value of Pension Fund Investments to 30 June 2024



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 30 June 2024;
 - (b) movement in the cash balance during the quarter, and;
 - (c) actual cash flows for the period 1 January 2024 to 30 June 2024 along with a cash flow forecast to 30 June 2025.
 - (d) rebalancing activity undertaken during the Quarter 1 April – 30 June 2024.

Executive Summary

2. The overall value of the Fund as at 30 June 2024 was £3.655 billion and the cash balance held in the Durham County Council Pension Fund bank account was £33.237 million. Fund managers also held cash of £44.506 million at that date.
3. Working cash balance levels and rebalancing reviews continue to be undertaken. No asset classes hit the trigger point for rebalancing requirements during the quarter to 30 June 2024.
4. Appendix 1 summarises the actual cash flows for the periods 1 January 2024 to 30 June 2024 and the working cash balance position of the pension fund at the end of each quarter.
5. Appendix 2 summarises the quarterly cash flow forecasts to 30 June 2025.

Recommendation

6. Members are asked to note and agree the information relating to the Fund value as at 30 June 2024 and cash flows contained within the 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 30 June 2024 was £3.655 billion compared to £3.665 billion at 31 March 2024. This is a decrease of £10 million (or 0.27%) in the first quarter of 2024/25. Details of the fund's performance are provided later in the meeting.

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 When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers.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.

Fund Rebalancing

11. 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.

12. 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.
13. No rebalancing has been undertaken during the first quarter.
14. The table below highlights the fund balance by fund manager and asset class as at 30 June 2024:

Fund Manager and Asset Class	As of 30 June 2024 Market Value £000's	Actual Weight	Current Target Weight	Rebalancing Range – Trigger Points
ALLIANCE BERNSTEIN *	187.49	5.13%	5.00%	n/a
CBRE 1 *	214.64	5.87%	8.66%	n/a
CBRE 2 *	49.40	1.35%	1.34%	n/a
BCPP GLOBAL EQUITY ALPHA FUND	1,581.01	43.25%	40.00%	36%-44%
BCPP STERLING INDEX LINKED BOND	356.16	9.74%	10.00%	10%-12%
BCPP PRIVATE MARKETS*	270.31	7.40%	6.10%	n/a
BCPP MULTI ASSET CREDIT FUND	563.42	15.41%	15.00%	13%-17%
BCPP LISTED ALT FD	62.73	1.72%	3.86%	1%-3%
FORESIGHT REGIONAL INVESTMENT*	4.25	0.12%	0.04%	n/a
BCPP EMERGING MARKET ALPHA FUND	190.12	5.2%	5.00%	4%-6%
BCPP INVESTMENT GRADE CREDIT	175.79	4.81%	5.00%	4%-6%
TOTAL	3,665.32	100.00%	100.00%	

**Not within scope of rebalancing*

Cash Flow

15. In March 2024, Members considered a revised cash flow reporting model. Feedback received from members has been incorporated into the cash flows presented at Appendix 1 and Appendix 2
16. Appendix 1 highlights the cashflow for the periods 1 January 2024 to 30 June 2024 and details the original forecasts, actuals and variances against the original forecasts.
17. Appendix 2 highlights the quarterly forecasted cash flows of the pension fund from the 1 July 2024 to 30 June 2025.

18. The model continues to reflect the implementation of the new strategic asset allocations and positive income generated from Investment Grade Credit along with the commitments agreed by Committee, to BCPP Alternatives.
19. The following table summarise the cash flow movement from 1 January 2024 to 30 June 2024:

	Original Forecast £000's	Actual £000's	Variance £000's	Variance % £000's
Opening Cash flow	31,083	31,084	1	0.00%
Total Inflows	99,835	94,859	-4,976	-4.98%
Total Outflows	-112,771	-107,010	5,761	-5.11%
Total BCPP	8,827	8,304	-523	-5.93%
Cash withdrawal	6,000	6,000	0	0.00%
Closing Cash Flows	32,974	33,237	263	0.80%

20. The main reasons across Inflows, outflows and BCPP categories for the actual variance to original forecast is as follows:
- (a) The original forecasts within the January 2024 – June 2024 cash flow reported to members at the March Committee were based on an assumed equal profiling over 12 months. Actual receipts reflect the nature of the programme. Further information received from the Private Markets Manager supports this. The pattern / behaviour is detailed further in Part B of today's meeting.
21. The Cash Flow forecasts in Appendix 2 include the following assumptions :-
- (a) Pension Contributions have taken into consideration the MTFP employee pay award assumption amount of 4%, from December 2024 (including arrears);
- (b) Deficit payments are in line with the AON Triennial Valuation Rates and Adjustments figures, with the schools' figure adjusted for academy conversions;

- (c) Unfunded pension recharges – based on an average of actuals relative to the 12 month rolling cash flow period to 30 June 2024;
- (d) Investment Grade Credit income – based on an average of actuals relative to the 12 month rolling cash flow period to 30 June 2024;
- (e) Pension transfers – based on an average of actuals relative to the 12 month rolling cash flow period to 30 June 2024;
- (f) Interest earned – based on the Treasury Management team’s forecast of the interest DCC will pay to the Pension Fund;
- (g) Fees and overpayment - based on an average of actuals relative to the 12 month rolling cash flow period to 30 June 2024;
- (h) Misc. inflows - based on an average of actuals relative to the 12 month rolling cash flow period to 30 June;
- (i) BCPP – Distributions/rebates based on revised BCPP commitments forecast (July 2024);
- (j) Pension Benefits paid – increased by the agreed increase in pensions of 6.7% from April 2025;
- (k) HMRC – Pension Tax - based on an average of actuals relative to the 12 month rolling cash flow period to 30 June 2024, this also includes payments to HMRC for the Lifetime Allowance tax;
- (l) 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;
- (m) Misc. outflows - based on an average of actuals relative to the 12 month rolling cash flow period to 30 June 2024;
- (n) BCPP – capital calls – based on revised BCPP commitments forecast (July 2024);
- (o) 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 two month lag.

22. The actual and forecasted cash flows highlight an increase in BCPP distribution / rebates. As noted above in the assumptions paragraph of the report, the projections have been provided by the Private Markets Manager and reflect the nature of the relatively immature programme. The Private Market Performance Metrics considered in Part B of the meeting provide greater detail of the cash flow pattern / behaviour in relation to this element.
23. Members will note that the forecasted closing cash balances from quarter three onwards exceed the working cash balance requirement. On the basis of prudence, whilst we continue to review the assumptions and detailed information provision, projections are not being acted upon at this stage.
24. The monthly drawdown from the MAC (£2 million per month) therefore remains as a cash inflow assumption, this will however be reviewed in line with all cash flow assumptions and rebalancing exercises.

Background Papers

25. Investment Strategy Statement:
<https://www.durham.gov.uk/media/44693/Pension-Fund-Investment-Strategy-Statement/pdf/PensionFundInvestmentStrategyStatement.pdf?m=1716909339213>

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Appendix 1

Actual Cash Flow – For the period 1 January 2024 to 30 June 2024

DCC Pension Fund - Quarter 4 to 31/03/24	Forecast	Actuals	Variance	Variance
Cash Flow - Opening Balance	31,083,251.36	31,084,390.03	1,138.67	0.00%
Period	Q4 2023	Q4 2023	Q4 2023	Q4 2023
Cash Inflows	£	£	£	%
<i>Pension Contribution - Employers</i>	26,837,120.99	26,572,279.10	-264,841.89	-0.99%
<i>Pension Contribution - Employees</i>	8,978,360.21	8,892,935.28	-85,424.93	-0.95%
<i>Pension Contribution - Deficit Payments</i>	353,699.03	406,144.48	52,445.45	14.83%
<i>Unfunded Pension Recharges</i>	715,183.32	428,921.63	-286,261.69	-40.03%
<i>Investment Grade Credit (est Jul-23)</i>	1,914,268.06	1,887,100.93	-27,167.13	-1.42%
<i>Pension Transfers</i>	1,741,154.06	2,392,044.28	650,890.22	37.38%
<i>Fund Manager Payments</i>	1,900,000.00	1,884,373.35	-15,626.65	-0.82%
<i>Interest Earned</i>	283,393.40	283,393.40	0.00	0.00%
<i>Fees & Overpayment</i>	1,052,719.77	1,262,315.41	209,595.64	19.91%
<i>Misc Inflows*</i>	680,831.16	472,851.56	-207,979.60	-30.55%
<i>BCPP - Distributions/Rebates</i>	3,885,517.27	2,256,898.83	-1,628,618.44	-41.92%
Total Inflows	48,342,247.26	46,739,258.24	-1,602,989.02	-3.32%
Cash Outflows				
<i>Pension Benefits Paid</i>	-45,912,967.16	-39,408,830.84	6,504,136.32	-14.17%
<i>HMRC - Pension Tax</i>	-5,224,452.40	-5,092,423.76	132,028.64	-2.53%
<i>Fund Manager Payments</i>	-1,578,018.54	-797,118.41	780,900.13	-49.49%
<i>Misc Outflows*</i>	-1,596,960.40	-4,021,979.45	-2,425,019.05	151.85%
Total Outflows	-54,312,398.51	-49,320,352.46	4,992,046.05	-9.19%
Border To Coast				
<i>BCPP - Capital Calls</i>	-25,173,089.08	-24,077,118.45	1,095,970.63	-4.35%
<i>BCPP - Listed Alts Returns</i>	25,000,000.00	25,000,000.00	0.00	0.00%
Total BCPP	-173,089.08	922,881.55	1,095,970.63	-633.18%
<i>Balancing Cash Withdrawal</i>				
Cash Flow - Closing Balance	24,940,011.04	29,426,177.36	4,486,166.32	17.99%

DCC Pension Fund - Quarter 1 to 30/06/24	Forecast	Actuals	Variance	Variance
Cash Flow - Opening Balance	24,940,011.04	29,426,177.36	4,486,166.32	17.99%
Period	Q1 2024	Q1 2024	Q1 2024	Q1 2024
Cash Inflows	£	£	£	£
<i>Pension Contribution - Employers</i>	26,950,404.69	26,319,730.84	-630,673.85	-2.34%
<i>Pension Contribution - Employees</i>	9,065,066.43	8,854,391.23	-210,675.20	-2.32%
<i>Pension Contribution - Deficit Payments</i>	602,138.50	573,175.76	-28,962.74	-4.81%
<i>Unfunded Pension Recharges</i>	1,066,445.34	1,480,144.80	413,699.46	38.79%
<i>Investment Grade Credit (est Jul-23)</i>	1,897,140.38	1,956,033.24	58,892.86	3.10%
<i>Pension Transfers</i>	2,959,358.71	2,447,241.64	-512,117.07	-17.31%
<i>Fund Manager Payments</i>	0.00	12,053.32	12,053.32	100.00%
<i>Interest Earned</i>	367,500.00	437,084.72	69,584.72	18.93%
<i>Fees & Overpayment</i>	619,245.20	66,411.42	-552,833.78	-89.28%
<i>Misc Inflows*</i>	772,186.94	903,198.49	131,011.55	16.97%
<i>BCPP - Distributions/Rebates</i>	7,192,500.00	5,070,274.43	-2,122,225.57	-29.51%
Total Inflows	51,491,986.19	48,119,739.89	-3,372,246.30	-6.55%
Cash Outflows				
<i>Pension Benefits Paid</i>	-52,277,516.96	-51,542,412.48	735,104.48	-1.41%
<i>HMRC - Pension Tax</i>	-4,908,470.90	-5,063,157.91	-154,687.01	3.15%
<i>Fund Manager Payments</i>	-1,200,419.84	-994,818.43	205,601.41	-17.13%
<i>Misc Outflows*</i>	-71,811.52	-89,868.29	-18,056.77	25.14%
Total Outflows	-58,458,219.23	-57,690,257.11	767,962.12	-1.31%
Border To Coast				
<i>BCPP - Capital Calls</i>	-28,275,000.00	-22,419,038.41	5,855,961.59	-20.71%
<i>BCPP - Listed Alts Returns</i>	37,275,000.00	29,800,000.00	-7,475,000.00	-20.05%
Total BCPP	9,000,000.00	7,380,961.59	-1,619,038.41	-17.99%
<i>Balancing Cash Withdrawal</i>	6,000,000.00	6,000,000.00	0.00	0.00%
Cash Flow - Closing Balance	32,973,778.00	33,236,621.73	262,843.73	0.80%

Please note that a positive inflow variance represents a increase in receipts, whereas a positive outflow represents a reduction in expenditure and vice versa.

Appendix 2

Forecast Cash Flow – For the period 1 July 2024 to 30 June 2024

DCC Pension Fund - Quarterly Forecast				
Cash Flow - Opening Balance	33,236,621.73	33,637,816.44	37,311,326.32	45,011,318.86
Period	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Cash Inflows	£	£	£	£
<i>Pension Contribution - Employers</i>	26,950,404.69	30,184,453.25	28,028,420.88	28,028,420.88
<i>Pension Contribution - Employees</i>	9,065,066.43	10,152,874.40	9,427,669.09	9,427,669.09
<i>Pension Contribution - Deficit Payments</i>	602,138.50	602,138.50	602,138.50	602,138.50
<i>Unfunded Pension Recharges</i>	1,018,961.17	1,018,961.17	1,018,961.17	1,018,961.17
<i>Investment Grade Credit (from Jul-23)</i>	1,905,071.82	1,905,071.82	1,905,071.82	1,905,071.82
<i>Pension Transfers</i>	2,953,176.17	2,953,176.17	2,953,176.17	2,953,176.17
<i>Fund Manager Payments</i>	-	-	-	-
<i>Interest Earned</i>	367,500.00	367,500.00	367,500.00	367,500.00
<i>Fees & Overpayment</i>	475,390.19	475,390.19	475,390.19	475,390.19
<i>Misc Inflows*</i>	626,847.04	626,847.04	626,847.04	626,847.04
<i>MAC Withdrawal (from Apr-24)</i>	6,000,000.00	6,000,000.00	6,000,000.00	6,000,000.00
<i>BCPP - Distributions/Rebates</i>	4,777,500.00	4,777,500.00	12,267,500.00	12,267,500.00
Total Inflows	54,742,056.00	59,063,912.54	63,672,674.85	63,672,674.85
Cash Outflows				
<i>Pension Benefits Paid</i>	- 49,142,412.48	- 49,142,412.48	- 49,142,412.48	- 52,434,954.12
<i>HMRC - Pension Tax</i>	- 4,740,114.31	- 4,740,114.31	- 4,740,114.31	- 4,740,114.31
<i>Fund Manager Payments</i>	-	- 1,049,541.37	- 26,821.02	-
<i>Misc Outflows*</i>	- 458,334.50	- 458,334.50	- 458,334.50	- 458,334.50
Total Outflows	- 54,340,861.29	- 55,390,402.66	- 54,367,682.31	- 57,633,402.93
Border To Coast				
<i>BCPP - Capital Calls</i>	- 23,655,000.00	- 23,655,000.00	- 25,050,000.00	- 25,050,000.00
<i>BCPP - Listed Alts Returns</i>	23,655,000.00	23,655,000.00	23,445,000.00	25,050,000.00
Total BCPP	-	-	- 1,605,000.00	-
<i>Balancing Cash Withdrawal</i>				-
Cash Flow - Closing Balance	33,637,816.44	37,311,326.32	45,011,318.86	51,050,590.78