

Pension Fund Committee

5 September 2013

Pension Fund Investments



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Purpose of the Report

1. The purpose of the report is to inform Members of the overall value of the Pension Fund as at 30 June 2013 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Fund

2. Reports from the five appointed Managers:

- Alliance Bernstein
- Barings
- Black Rock
- CBRE
- Royal London

are included in other papers within this agenda. The Value of the Fund as at 30 June 2013 was £2,015,970,000. The Value of the Fund at 31 March was £2,060,340,000, a decrease of £44,370,000 in the quarter.

Allocation of New Money

3. Table 1 at Appendix 1 shows the working cash balance position of the Fund, cash flow for the last four quarters, and an estimated cash flow for the quarter ending 30 September 2013. This table includes only cash held by Durham County Council Pension Fund Bank Account. It does not include cash balances held by the Managers of £5,501,458 as at 30 June 2013.
4. In determining the amount of cash to be allocated to Managers at the quarter ended 30 September, 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.
5. The amount allocated to each Manager is subject to the need to retain money in the Durham County Council Pension Fund Bank account to meet the Fund's 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.

Fund Rebalancing

6. Normally, 'fund rebalancing' takes place on a quarterly basis, but, it has been temporarily suspended until the results of the Strategy Review are put into operation.

Cash Flow Forecast 2013/14

7. Table 2 shows the forecasted cash flow for the Pension Fund for 2013/14
8. The table shows that the Pension Fund Bank Account 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 has a positive cash flow.
9. The quarterly rebalancing exercise will be 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.
10. The assumptions which have been used to calculate the cash flow forecast are:
 - Income for 2013/14 estimated at £32m based on last year's actual figures to March 2013.
 - Income is profiled to be received in the same pattern as last year, that is:

| | |
|------------------------------|------|
| ○ Quarter ended 30 June | 34% |
| ○ Quarter ended 30 September | 27% |
| ○ Quarter ended 31 December | 18% |
| ○ Quarter ended 31 March | 21%. |
 - Increases in contributions in line with the Actuarial Valuation are included.
 - 'Transfers in' estimated at £500,000 per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.
 - Pensions increase will be at broadly the same level as 2012/13.
 - Payroll Paysheets are forecast to increase by £100,000 per quarter. This is the line that records payments to pensioners. This line will alter if there are large numbers of retirements in the employing authorities, but it is anticipated that as the County Council and Darlington Borough Council's position has been taken into account, as the largest employers in the Fund, this should not be materially different to forecast.

- Payable Paysheets are forecast at a constant level throughout the year, but this can be the most volatile line. Included in this line are Fund Managers' fees and payments of lump sums. The assumption here errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.
11. This is an early indication of the likely impact on the Pension Fund's cash flow forecast which will be reviewed each quarter and refined to take into account new information as it becomes available.

Recommendation

12. Members are asked to note the information contained in this report and it is recommended that no further allocation of cash be made to Managers.

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**Appendix 1
TABLE 1**

Cash Flow – Estimated and Actual for the period 30 September 2012 to 30 September 2013

| Quarter Ended (1) | 30.09.12 | | 31.12.12 | | 31.03.13 | | 30.06.13 | | 30.09.13 |
|--|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|-----------------------|
| | Estimate (2) £ | Actual (3) £ | Estimate (4) £ | Actual (5) £ | Estimate (6) £ | Actual (7) £ | Estimate (8) £ | Actual (9) £ | Estimate (10) £ |
| Contributions - DCC | 18,306,382 | 18,136,224 | 16,400,000 | 16,056,854 | 16,000,000 | 18,102,207 | 18,500,000 | 18,650,306 | 18,500,000 |
| - Other | 6,700,000 | 7,038,163 | 6,800,000 | 7,285,052 | 7,100,000 | 5,358,443 | 5,200,000 | 5,376,269 | 5,300,000 |
| Pensions Increase | 1,200,000 | 1,210,577 | 1,200,000 | 1,242,263 | 1,200,000 | 1,150,005 | 1,000,000 | 919,281 | 1,000,000 |
| Transfer Values | 1,000,000 | 1,607,552 | 1,000,000 | 451,820 | 500,000 | 1,008,627 | 700,000 | 742,328 | 500,000 |
| Month end uncleared items | 1,000,000 | 1,338,851 | 1,000,000 | 2,125,200 | 2,000,000 | 404,953 | 400,000 | 428,496 | 1,000,000 |
| Gross Dividend & Interest | 60,000 | 0 | 120,000 | 139,171 | 65,000 | 117,192 | 75,000 | 78,593 | 80,000 |
| Total Income | 28,226,382 | 29,331,367 | 26,520,000 | 27,300,360 | 26,865,000 | 26,141,427 | 25,875,000 | 26,195,273 | 26,380,000 |
| Payroll Paysheets | 20,200,000 | 20,428,758 | 20,500,000 | 20,621,401 | 20,700,000 | 20,382,254 | 20,500,000 | 20,978,262 | 21,000,000 |
| Payables Paysheets (incl. Managers' fees) | 10,000,000 | 8,268,280 | 9,000,000 | 5,714,831 | 9,000,000 | 10,421,168 | 8,000,000 | 6,637,706 | 8,000,000 |
| Total Expenditure | 30,200,000 | 28,698,038 | 29,500,000 | 26,336,232 | 29,700,000 | 30,803,422 | 28,500,000 | 27,615,968 | 29,000,000 |
| Surplus / (Deficit) | (1,933,618) | 634,329 | (2,980,000) | 964,128 | (2,835,000) | (4,661,995) | (2,625,000) | (1,420,695) | (2,620,000) |
| Net Capital payments/(receipts) | | 110,000 | | 0 | | 0 | | 1,600,000 | |
| Balance at Bank (opening) | | 15,386,952 | | 14,024,338 | | 24,538,401 | | 21,217,826 | |
| Balance at Bank (closing) | | 14,024,338 | | 24,538,401 | | 21,217,826 | | 14,369,891 | |
| Money paid/(recovered) to/(from Manager) | | 0 | | (10,000,000) | | 0 | | 0 | |

Projected Cash Flow – including dividends received by Fund Managers for the period 30 September 2013 to 30 September 2014

| Quarter Ended | 30.09.13 | 31.12.13 | 31.03.14 | 30.06.14 | 30.09.14 |
|--|-------------|-------------|-------------|-------------|-------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £ | £ | £ | £ | £ |
| Contributions - DCC | 18,500,000 | 18,500,000 | 18,500,000 | 18,500,000 | 18,500,000 |
| - Other | 5,300,000 | 5,250,000 | 5,250,000 | 5,200,000 | 5,200,000 |
| Pensions Increase | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Transfer Values | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Month end uncleared items | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Gross Dividend & Interest | 80,000 | 80,000 | 80,000 | 80,000 | 80,000 |
| Total Income | 26,380,000 | 26,330,000 | 26,330,000 | 26,280,000 | 26,280,000 |
| Payroll Paysheets | 21,000,000 | 21,100,000 | 21,200,000 | 21,300,000 | 21,400,000 |
| Payables Paysheets (incl. Managers' fees) | 8,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| Total Expenditure | 29,000,000 | 31,100,000 | 31,200,000 | 31,300,000 | 31,400,000 |
| Surplus / (Deficit) | (2,620,000) | (4,770,000) | (4,870,000) | (5,020,000) | (5,120,000) |
| Dividends Received by Managers | 8,640,000 | 5,760,000 | 6,720,000 | 10,880,000 | 8,640,000 |
| Net Cash Flow Position | 6,020,000 | 990,000 | 1,850,000 | 5,860,000 | 3,520,000 |

