

## **Pension Fund Committee**

**5 June 2014**

### **Overall Value of Pension Fund Investments to 31 March 2014**



---

**Don McLure, Corporate Director Resources**

---

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

1. To inform Members of the overall value of the Pension Fund as at 31 March 2014 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.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:

- AllianceBernstein
- Barings
- BlackRock
- CB Richard Ellis
- Royal London

are included in other papers within this agenda. The Value of the Fund at 31 March 2014 was £2,128.550m.

3. The Value of the Fund as at 31 December 2013 was £2,115.270m. The value of the fund therefore increased by £13.280m in the fourth quarter of 2013/14.
4. The results of the Triennial Valuation of the Fund show that that Pension Fund has a funding ratio of 84% and a shortfall of £379.2m. This is an improvement from the 2010 Valuation results which showed the Pension Fund to have a funding ratio of 80% and a shortfall of £418.1m.
5. This improvement has been reported in the Local Government Chronicle in May 2014 showing the Fund to be in the top ten Local Government Pension Fund performers by deficit reduction.

#### **Allocation of New Money**

6. New money is allocated to Investment Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.
7. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash will be withdrawn from Investment Managers.

8. Appendix 1 details the working cash balance position of the Pension Fund, cash flow for the last four quarters, and an estimated cash flow for the quarter ending 30 June 2014. 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 £47.990m as at 31 March 2014.
9. In determining the amount of cash to be allocated to Managers at the quarter ended 31 March, 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.
10. 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**

11. Fund rebalancing is the mechanism by which the Pension Fund ensures that the asset allocation to Investment Managers is maintained at the levels agreed by the Pension Fund Committee and set out in the Statement of Investment Principles.
12. Normally 'fund rebalancing' takes place on a quarterly basis, but it has been suspended until the results of the Strategy Review are put into operation.
13. The transition of assets to the new Investment Managers will incorporate a rebalancing of the Fund's assets, with the normal quarterly rebalancing resuming in December 2014.

### **Cash Flow Forecast 2014/15**

14. Appendix 2 shows the forecasted cash flow for the Pension Fund for 2014/15
15. This table shows that the Pension Fund 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.
16. 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.
17. The assumptions which have been used to calculate the cash flow forecast are:

- Income for 2014/15 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 £0.500m 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 2013/14.
  - Payroll Paysheets are forecast to increase by £0.100m 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's position has been taken into account, as the largest employer 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.
18. This is an early indication of the likely impact on the Pension Fund's cash flow forecast over the next year. This will continue to be reviewed each quarter and refined to take into account new information as it becomes available.

### **Recommendation**

19. Members are asked to note the information contained in this report.

---

**Contact: Hilary Appleton Tel: 03000 266239**

---

## Cash Flow – Estimated and Actual for the period 30 June 2013 to 30 June 2014

Quarter Ended (1)	30.06.13		30.09.13		31.12.13		31.03.14		30.06.14
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)	Estimate (10)
	£	£	£	£	£	£	£	£	£
Contributions - DCC	18,500,000	18,650,306	18,500,000	16,500,466	16,500,000	16,437,667	16,500,000	16,416,374	16,400,000
- Other	5,200,000	5,376,269	5,300,000	7,592,559	7,300,000	7,625,486	7,400,000	7,622,806	7,400,000
Pensions Increase	1,000,000	919,281	1,000,000	1,221,180	1,000,000	1,200,710	1,100,000	1,230,397	1,200,000
Transfer Values	700,000	742,328	500,000	607,420	500,000	663,617	500,000	617,401	500,000
Month end uncleared items	400,000	428,496	1,000,000	1,300,000	1,000,000	593,554	1,000,000	430,924	500,000
Gross Dividend & Interest	75,000	78,593	80,000	22,751	23,000	11,545	11,000	35,354	20,000
Total Income	25,875,000	26,195,273	26,380,000	27,244,376	26,323,000	26,532,579	26,511,000	26,353,256	26,020,000
Payroll Paysheets	20,500,000	20,978,262	21,000,000	21,128,081	21,200,000	21,119,890	21,300,000	21,158,961	21,300,000
Payables Paysheets (incl. Managers' fees)	8,000,000	6,637,706	8,000,000	6,623,383	7,000,000	5,416,178	7,000,000	5,520,648	7,000,000
Total Expenditure	28,500,000	27,615,968	29,000,000	27,751,464	28,200,000	26,536,068	28,300,000	26,679,609	28,300,000
Surplus / (Deficit)	(2,625,000)	(1,420,695)	(2,620,000)	(507,088)	(1,877,000)	(3,489)	(1,789,000)	(326,353)	(2,280,000)
Net Capital payments/(receipts)		1,600,000		0		0		0	
Balance at Bank (opening)		21,217,826		14,369,891		12,515,667		12,377,657,	
Balance at Bank (closing)		14,369,891		12,515,667		12,377,657		27,017,268	
Money paid/(recovered) to/(from Manager)		0		0		0		(15,000,000)	

**Projected Cash Flow** – including dividends received by Fund Managers for the period 30 June 2014 to 30 June 2015

<b>Quarter Ended</b>	<b>30.06.14</b>	<b>30.09.14</b>	<b>31.12.14</b>	<b>31.03.15</b>	<b>30.06.15</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Contributions - DCC	16,400,000	16,500,000	16,500,000	16,500,000	16,500,000
- Other	7,400,000	7,400,000	7,400,000	7,400,000	7,400,000
Pensions Increase	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Transfer Values	500,000	500,000	500,000	500,000	500,000
Month end uncleared items	500,000	500,000	500,000	500,000	500,000
Gross Dividend & Interest	20,000	20,000	20,000	20,000	20,000
<b>Total Income</b>	<b>26,020,000</b>	<b>26,120,000</b>	<b>26,120,000</b>	<b>26,120,000</b>	<b>26,120,000</b>
Payroll Paysheets	21,300,000	21,400,000	21,500,000	21,600,000	21,600,000
Payables Paysheets (incl. Managers' fees)	7,000,000	9,000,000	9,000,000	10,000,000	10,000,000
<b>Total Expenditure</b>	<b>28,300,000</b>	<b>30,400,000</b>	<b>30,500,000</b>	<b>31,600,000</b>	<b>31,600,000</b>
<b>Surplus / (Deficit)</b>	<b>(2,280,000)</b>	<b>(4,280,000)</b>	<b>(4,380,000)</b>	<b>(5,480,000)</b>	<b>(5,480,000)</b>
Dividends Received by Managers	9,450,000	6,300,000	7,350,000	6,720,000	9,450,000
<b>Net Cash Flow Position</b>	<b>7,170,000</b>	<b>2,020,000</b>	<b>2,970,000</b>	<b>1,240,000</b>	<b>3,970,000</b>