

Pension Fund Committee

4 March 2015

Overall Value of Pension Fund Investments to 31 December 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as at 31 December 2014 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Pension Fund

2. Reports from the seven appointed Managers:

- Aberdeen
- AllianceBernstein
- Barings
- Bank of New York (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda. The Value of the Fund at 31 December 2014 was £2 billion, 198.32 million.

It should be noted that although the Pension Fund gave their assent to the transfer of assets from Baring Asset Management to BlackRock in September 2014, this was not actioned until January 2015, due to the legal processes necessary and the scheduling of the physical transfer of assets.

3. The Value of the Fund as at 30 September 2014 was £2 billion, 178.58 million. The value of the fund therefore increased by £19.74m in the fourth quarter of 2014/15.

Allocation of New Investment Money

4. New investment 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.
5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.

6. Appendix 1 details the working cash balance position of the Pension Fund and cash flow for the last four quarters, and an estimated cash flow for the quarter ending 31 March 2015. This table includes only cash held by Durham County Council Pension Fund Bank Account. It does not include cash balances of £76.388m held by the Managers as at 31 December 2014.
7. In determining the amount of cash to be allocated to Managers at the quarter ended 31 December 2014, 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.
8. The amount allocated to each Manager is subject to the need to retain enough money in the Durham County Council Pension Fund Bank account to meet the Fund's estimated 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.

Cash Flow Forecast 2014/15

9. Appendix 2 shows the projected cash flow for the Pension Fund for the period March 2015 to March 2016.
10. 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 is forecasted to have a positive cash flow.
11. 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.
12. The following assumptions have been used to calculate the cash flow forecast:
 - Dividend income receivable in 2015/16 is estimated to be £31m, which is based on last year's actual figures to 31 March 2014. This income is profiled to be received in the same pattern as last year, that is:

○ Quarter ended 31 March	21%
○ Quarter ended 30 June	34%
○ Quarter ended 30 September	27%
○ Quarter ended 31 December	18%
 - Increases in contributions in line with the Actuarial Valuation are included.

- 'Transfer values in' are estimated at £0.500m per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.
 - Pension increases will be at broadly the same level as 2014/15.
 - Payroll Paysheets (payments to pensioners) are forecast to increase by £0.100m per quarter. This figure will alter if there are large numbers of retirements in 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.
 - Payable Paysheets are forecast on the basis of the last year's profile, adjusted for known one-offs, 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.
13. This is an early indication of the likely impact on the Pension Fund's cash flow forecast over the next year. It will continue to be reviewed each quarter and refined to take into account new information as it becomes available.

Fund Rebalancing

14. 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.
15. Normally 'fund rebalancing' takes place on a quarterly basis, but it has been suspended for some time pending the results of the Strategy Review which has now been completed.
16. The transition of assets to the new Investment Managers was completed on 4 November 2014; this exercise incorporated a rebalancing of the Fund's assets. Normal quarterly rebalancing is therefore resumed with effect from March 2015.
17. Appendix 3 shows the cash rebalancing matrix. The rebalancing will reflect the figures shown in the 'Rebalanced' column and will take place 1 month after the Committee meeting.

Recommendation

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

Cash Flow – Estimated and Actual for the period 31 March 2014 to 31 March 2015

Quarter Ended (1)	31.03.14		30.06.14		30.09.14		31.12.14		31.03.15
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)	Estimate (10)
	£	£	£	£	£	£	£	£	£
Contributions - DCC	16,500,000	16,416,374	16,400,000	16,204,146	16,500,000	16,459,409	16,500,000	16,350,731	16,400,000
- Other	7,400,000	7,622,806	7,400,000	7,377,362	7,400,000	7,164,058	7,400,000	7,616,148	7,400,000
Pensions Increase	1,100,000	1,230,397	1,200,000	1,206,808	1,200,000	1,201,297	1,200,000	1,273,523	1,200,000
Transfer Values	500,000	617,401	500,000	515,403	500,000	491,294	500,000	487,359	500,000
Month end uncleared items	1,000,000	430,924	500,000	0	500,000	497,701	500,000	2,000	10,000
Gross Dividend & Interest	11,000	35,354	20,000	33,019	35,000	10,539	11,000	29,773	30,000
Total Income	26,511,000	26,353,256	26,020,000	25,336,738	26,135,000	25,824,298	26,111,000	25,759,534	25,540,000
Payroll Paysheets	21,300,000	21,158,961	21,300,000	21,722,746	21,500,000	21,967,128	22,000,000	22,150,713	22,200,000
Payables Paysheets (incl. Managers' fees)	7,000,000	5,520,648	7,000,000	9,255,551	8,000,000	34,339,979	7,000,000	7,134,963	7,000,000
Total Expenditure	28,300,000	26,679,609	28,300,000	30,978,297	29,500,000	56,307,107	29,000,000	29,285,676	29,200,000
Surplus / (Deficit)	(1,789,000)	(326,353)	(2,280,000)	(5,641,551)	(3,365,000)	(30,482,809)	(2,889,000)	(3,526,142)	(3,660,000)
Net Capital payments/(receipts)	0		0		0		0		
Balance at Bank (opening)	12,377,657,		27,017,268		20,697,641		24,421,753		
Balance at Bank (closing)	27,017,268		20,697,641		24,421,753		56,167,417		
Money paid/(recovered) to/(from Manager)	(15,000,000)		0		(34,100,000)		(35,000,000)		

Projected Cash Flow – including forecasted dividends receivable by Fund Managers for the period 31 March 2015 to 31 March 2016

Quarter Ended	31.03.15	30.06.15	30.09.15	31.12.15	31.03.16
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
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	10,000	500,000	500,000	500,000	500,000
Gross Dividend & Interest	30,000	30,000	20,000	20,000	20,000
Total Income	25,540,000	26,130,000	26,120,000	26,120,000	26,120,000
Payroll Paysheets	22,200,000	22,300,000	22,400,000	22,500,000	22,600,000
Payables Paysheets (incl. Managers' fees)	7,000,000	10,000,000	8,000,000	8,000,000	8,000,000
Total Expenditure	29,200,000	32,300,000	30,400,000	30,500,000	30,600,000
Surplus / (Deficit)	(3,660,000)	(6,170,000)	(4,280,000)	(4,380,000)	(4,480,000)
Dividends Received by Managers	6,510,000	10,540,000	8,370,000	5,580,000	6,510,000
Net Cash Flow Position	2,850,000	4,370,000	4,090,000	1,200,000	2,030,000

Cash Rebalancing Matrix – for the period to 31 December 2014

REBALANCING OF Durham P/F ASSETS

Strategic Fund	Benchmark Proportion	Mandate Type
Matching Fund	20%	Government Bonds
Investment Fund	80%	Various

After Rebalancing	
20.0%	439.66
80.0%	1758.64
100.0%	2198.30

	31-Dec-14			+/-			5% Tolerance				Outside Limit	
	Value £m	%	Target	Allocation £m	Rebalanced £m	%	Min %	Min £m	Max %	Max £m		
Matching Bond Manager												
RLAM	464.20	21.1%	20.0%	-18.0	446.20	20.3%	19.0%	417.68	21.0%	461.64	0.00	-2.56
Matching Fund sub-total	464.20	21.1%	20.0%	-18.0	446.20	20.3%	19.0%	417.68	21.0%	461.64	0.00	-2.56
Global Equity Manager												
Aberdeen	329.20	15.0%	15.0%	5.4	334.65	15.2%	14.3%	313.26	15.8%	346.23	0.00	0.00
Global Equity Manager												
BNY (Walter Scott)	334.40	15.2%	15.0%	0.2	334.65	15.2%	14.3%	313.26	15.8%	346.23	0.00	0.00
Emerging Markets Equity Manager												
Mondrian	151.20	6.9%	7.0%	5.0	156.17	7.1%	6.7%	146.19	7.4%	161.58	0.00	0.00
Broad Bond Manager												
AllianceBernstein	325.80	14.8%	15.0%	8.8	334.65	15.2%	14.3%	313.26	15.8%	346.23	0.00	0.00
DAA Manager												
Blackrock	430.70	19.6%	20.0%	15.5	446.20	20.3%	19.0%	417.68	21.0%	461.64	0.00	0.00
Global Property Manager												
CBRE 1		0.0%										
CBRE 2		0.0%										
Allocated undrawn cash					30.1							
Sub-Total	145.80	6.6%	8.0%	0.0	145.80	6.6%	7.6%	167.07	8.4%	184.66	21.27	0.00
Investment Fund sub-total	1717.10	78.1%	80.0%	30.04	1595.94	72.6%	76.0%	1670.71	84.0%	1846.57	0.00	0.00
Investments sub-total	2181.30	99.2%	100.0%	12.03	810.91	100.0%	95.0%	730.93	95.2%	2093.62	0.00	-87.68
Cash												
Internal Cash	0.00				0.0							
Cash at Custodian	17.00				0.0							
Cash sub-total	17.00	0.8%	0.0%	17.0	0.00	0.0%	0.0%	0.00	0.0%	0.00	0.00	-17.00
Fund Total	2198.30	100.0%	100.0%	29.03	2042.13	92.9%					21.27	-104.68