

Pension Fund Committee

6 June 2016

Overall Value of Pension Fund Investments to 31 March 2016



Paul Darby, Interim Corporate Director Resources

Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 31 March 2016 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.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
- BlackRock
- 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 March 2016 was £2 billion, 299.09 million.

3. The value of the Fund as at 31 December 2015 was £2 billion, 198.32 million. The value of the fund therefore increased by £100.77 million in the fourth quarter of 2015/16.
4. The value of the Fund as at 31 March 2015 was £2 billion, 284.41 million, therefore across the twelve months up to 31 March 2016 the value of the Fund increased by £14.68 million.

Allocation of New Investment Money and Withdrawal of Investment Money to Deal with Estimated Deficit

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 When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.

7. Appendix 1 details the working cash balance position of the Pension Fund and cash flow for the last four quarters. This table includes only cash held by Durham County Council Pension Fund Bank Account. It does not include cash balances of £79.26 million held by the Managers as at 31 March 2016.
8. In determining the amount of cash to be allocated to Managers as at the quarter ended 31 March 2016, 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.
9. 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 additional sums to be allocated to the Managers in the quarter.

Cash Flow Forecast 2016/17

10. Appendix 2 shows the projected cash flow for the Pension Fund for the period 1 April 2016 to 30 June 2017.
11. This table shows that the Pension Fund bank account is estimated to be in deficit in each of the next five quarters. When taking into account estimates of investment income received and held by Fund Managers, the Pension Fund cash flow is forecasted to remain negative, apart for the quarter ending 31 March 2017.
12. The quarterly rebalancing exercise is 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.
13. The following assumptions have been used to calculate the cash flow forecast:
 - Dividend income receivable in 2016/17 is estimated to be £28.0m, which is based on the actual figures to 31 March 2015. This income is profiled to be received in the same pattern as then, that is:

○ Quarter ended 30 June 2016	17%
○ Quarter ended 30 September 2016	33%
○ Quarter ended 31 December 2016	24%
○ Quarter ended 31 March 2017	26%
 - 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.
 - 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.
14. This is an early indication of the likely impact on the Pension Fund's cash flow forecast over the next 15 months. It will continue to be reviewed each quarter and refined to take into account new information as it becomes available.

Fund Rebalancing

15. 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.
16. There was no rebalancing of the Fund in the previous quarter, due to the Fund's performance and valuation figures not being available from JP Morgan, the Global Custodian.
17. There will be no rebalancing of the Fund this quarter. However, as it is estimated that the Pension Fund will not have sufficient cash available, as a working cash balance, £27 million will need to be withdrawn from Fund Managers. This will take place one month after the Committee meeting.

Recommendation

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

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – for the period 1 April 2015 to 31 March 2016

Quarter Ended (1)	30.06.15		30.09.15		31.12.15		31.03.16	
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)
	£	£	£	£	£	£	£	£
Income								
Contributions - DCC	16,800,000	16,774,877	16,800,000	16,584,386	16,800,000	16,560,615	16,800,000	16,612,581
Contributions - Other	7,400,000	14,475,496	7,400,000	8,202,546	7,500,000	8,003,099	7,500,000	7,784,726
Unfunded pensions recharges	1,200,000	1,236,045	1,200,000	1,137,723	1,130,000	880,714	1,130,000	1,228,584
Transfer Values	300,000	1,135,147	500,000	272,978	500,000	385,463	500,000	1,705,991
Other income	250,000	922,512	250,000	1,125,117	250,000	978,590	250,000	4,627,867
Funds recovered from Managers	0	0	0	15,443,676	0	0	0	0
Interest on short term investments	40,000	60,448	60,000	68,835	60,000	57,612	45,000	34,466
Total Income	25,990,000	34,604,525	26,210,000	42,835,261	26,240,000	26,866,093	26,225,000	31,994,215
Expenditure								
Payroll Paysheets	22,300,000	18,712,769	22,300,000	26,371,670	22,400,000	22,697,764	22,500,000	22,796,589
Payables Paysheets (incl. Managers' fees)	9,000,000	8,776,056	10,000,000	11,571,152	7,000,000	14,000,853	10,000,000	9,428,192
Funds transferred to Managers	0	0	0	0	15,000,000	18,182,168	9,555,000	19,055,000
Other Expenditure	0	0	0	0	0	0	0	3,960,143
Total Expenditure	31,300,000	27,488,825	32,300,000	37,942,822	44,400,000	54,880,785	42,055,000	55,239,924
Surplus / (-) Deficit	-5,310,000	7,115,700	-6,090,000	4,892,439	-18,160,000	-28,014,692	-15,830,000	-23,245,709
Balance at Bank (opening)		54,689,000		58,322,978		69,590,581		41,575,889
Balance at Bank (closing)		58,322,978		69,590,581		41,575,889		17,904,838

Projected Cash Flow – including forecasted dividends receivable by Fund Managers for the period 1 April 2016 to 30 June 2017

Quarter Ended	30.06.16	30.09.16	31.12.16	31.03.17	30.06.17
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Income					
Contributions - DCC	16,650,000	16,650,000	16,650,000	16,650,000	16,650,000
Contributions - Other	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000
Unfunded pensions recharges	1,120,000	1,120,000	1,120,000	1,120,000	1,120,000
Transfer Values	500,000	500,000	500,000	500,000	500,000
Other income	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Funds recovered from Managers	0	0	0	0	0
Interest on short term investments	20,000	20,000	20,000	20,000	20,000
Total Income	27,090,000	27,090,000	27,090,000	27,090,000	27,090,000
Expenditure					
Payroll Paysheets	22,700,000	22,800,000	22,900,000	23,000,000	23,100,000
Payables Paysheets (incl. Managers' fees)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Funds transferred to Managers	2,760,000	4,920,000	3,770,000	760,000	0
Other Expenditure	0	0	0	0	0
Total Expenditure	35,460,000	37,720,000	36,670,000	33,760,000	33,100,000
Surplus / (-) Deficit	-8,370,000	-10,630,000	-9,580,000	-6,670,000	-6,010,000
Dividends Received by Managers	4,760,000	9,240,000	6,720,000	7,280,000	4,760,000
Net Cash Flow Position	-3,610,000	-1,390,000	-2,860,000	610,000	-1,250,000