

Pension Fund Committee

8 December 2016

Overall Value of Pension Fund Investments to 30 September 2016



John Hewitt, Corporate Director Resources

Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 30 September 2016 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.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 30 September 2016 was £2 billion, 567.52 million.

3. The value of the Fund as at 30 June 2016 was £2 billion, 433.49 million. The value of the fund therefore increased by £134.03 million in the second quarter of 2016/17.

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

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 When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.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. This table includes only cash held by Durham County Council Pension Fund Bank Account. It does not include

cash balances of £33.14 million held by the Managers as at 30 September 2016.

7. In determining the amount of cash to be allocated to Managers as at the quarter ended 30 September 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.
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 2016/17

9. Appendix 2 shows the projected cash flow for the Pension Fund for the period October 2016 to December 2017.
10. This table shows that the Pension Fund is estimated to be in deficit in each quarter of the forecast period. 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 retained by Managers. When this is taken into account, the Pension Fund is forecasted to have positive cash flow, over the period to 31 December 2017.
11. 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.
12. 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 2016. 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%
 - Estimated increases in contributions in line with the ongoing actuarial valuation are included. In light of the current valuation, future contributions will continue to be reviewed. Comprehensive information is still required from the actuary, in order to produce a complete picture.

- '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 £0.200m 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 15 months. It should be noted that the cash balance is forecast to continue to decline over this period, with the cash balance forecast to reach a low level (below £10 million balance at bank) by April 2017. It is not recommended that any cash is returned from Fund Managers at this point. Daily cash balances will continue to be reviewed over the period. Longer term forecasts will continue to be refined, to take into account new information as it becomes available, including detail of the exact additional contributions due from employers as a consequence of the current actuarial valuation, and the timing of those contributions.

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. Following advice from Mercer, there was a rebalancing of the Fund for the period to 30 September 2016. This took place on 21 November.
16. There will be no rebalancing of the Fund this quarter.

Recommendation

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

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – for the period 1 October 2015 to 30 September 2016

Quarter Ended	31.12.15		31.03.16		30.06.16		30.09.16	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£	£	£	£	£	£	£
Income								
Contributions - DCC	16,800,000	16,560,615	16,800,000	16,612,581	16,650,000	16,929,884	16,650,000	16,749,648
Contributions - Other	7,500,000	8,003,099	7,500,000	7,784,726	7,800,000	8,801,635	8,200,000	8,408,381
Unfunded pensions recharges	1,130,000	880,714	1,130,000	1,228,584	1,120,000	824,479	1,120,000	1,533,757
Transfer Values	500,000	385,463	500,000	1,705,991	500,000	147,693	500,000	286,031
Other income	250,000	978,590	250,000	4,627,867	1,000,000	2,781,473	2,000,000	2,624,429
Funds recovered from Managers	0	0	0	0	0	17,000,000	10,000,000	10,198,377
Interest on short term investments	60,000	57,612	45,000	34,466	20,000	19,395	30,000	24,827
Total Income	26,240,000	26,866,093	26,225,000	31,994,215	27,090,000	46,504,559	38,500,000	39,825,450
Expenditure								
Payroll Paysheets	22,400,000	22,697,764	22,500,000	22,796,589	22,700,000	22,981,433	22,800,000	23,211,460
Payables Paysheets (incl. Managers' fees)	7,000,000	14,000,853	10,000,000	9,428,192	10,000,000	12,117,843	11,000,000	11,170,473
Funds transferred to Managers	15,000,000	18,182,168	9,555,000	19,055,000	2,760,000	520,000	4,920,000	13,895,000
Other Expenditure	0	0	0	3,960,143	0	12,394	0	1,115
Total Expenditure	44,400,000	54,880,785	42,055,000	55,239,924	35,460,000	35,631,670	38,720,000	48,278,048
Surplus / (-) Deficit	-18,160,000	-28,014,692	-15,830,000	-23,245,709	-8,370,000	10,872,889	-220,000	-8,452,598
Balance at Bank (opening)		69,590,581		41,575,889		17,904,838		27,554,055
Balance at Bank (closing)		41,575,889		17,904,838		27,554,055		18,648,105

Projected Cash Flow – including forecasted dividends receivable by Fund Managers for the period 1 October 2016 to 31 December 2017

Quarter Ended	31.12.16	31.03.17	30.06.17	30.09.17	31.12.17
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Income					
Contributions - DCC	16,650,000	16,650,000	19,100,000	19,100,000	19,100,000
Contributions - Other	8,200,000	8,200,000	9,410,000	9,410,000	9,410,000
Unfunded pensions recharges	1,120,000	1,120,000	1,131,200	1,131,200	1,131,200
Transfer Values	500,000	500,000	500,000	500,000	500,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	30,000,000	0	0	0	0
Interest on short term investments	15,000	10,000	5,000	5,000	0
Total Income	58,485,000	28,480,000	32,146,200	32,146,200	32,141,200
Expenditure					
Payroll Paysheets	23,400,000	23,600,000	23,800,000	24,000,000	24,200,000
Payables Paysheets (incl. Managers' fees)	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Funds transferred to Managers	30,000,000	0	0	0	0
Other Expenditure	0	0	0	0	0
Total Expenditure	64,400,000	34,600,000	34,800,000	35,000,000	35,200,000
Surplus / (-) Deficit	-5,915,000	-6,120,000	-2,653,800	-2,853,800	-3,058,800
Balance at Bank (opening)	18,648,105	12,733,105	6,613,105	3,959,305	1,105,505
Balance at Bank (closing)	12,733,105	6,613,105	3,959,305	1,105,505	-1,953,295
Dividends Received by Managers	6,720,000	7,280,000	4,760,000	9,240,000	6,720,000
Net Cash Flow Position	805,000	1,160,000	2,106,200	6,386,200	3,661,200