

Pension Fund Committee

5 June 2017

Overall Value of Pension Fund Investments to 31 March 2017



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Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 31 March 2017 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.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
- AB
- BlackRock
- Bank of New York Mellon (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda. The value of the Fund at 31 March 2017 was £2 billion, 680.74 million.

3. The value of the Fund as at 31 December 2017 was £2 billion, 584.02 million. The value of the fund therefore increased by £96.72 million in the fourth quarter of 2016/17.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

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 When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.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. As at 31 March 2017 the cash balance held in the Durham County Council Pension Fund Bank Account was

£8.638 million. In addition to this, not included in this table, Investment Managers were holding cash of £31.52 million at 31 March 2017.

Cash Flow Forecast 2017/18

7. Appendix 2 shows the projected cash flow for the Pension Fund for the period April 2017 to June 2018. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.
8. This table shows that over the forecast period the Pension Fund is estimated to be in surplus only in the quarter ending 30 June 2017; in all of the following quarters, payments are expected to exceed receipts.
9. The surplus in the first quarter of 2017/18 is due to the lump sums received in April 2017 from Durham County Council and Darlington Borough Council in respect of their three year deficit contributions.
10. The following assumptions have been used to calculate the cash flow forecast:
 - (i) Dividend income receivable in 2017/18 is estimated to be £28 million and is profiled to be received as follows:

• Quarter ended 30 June 2017	17%
• Quarter ended 30 September 2017	33%
• Quarter ended 31 December 2017	24%
• Quarter ended 31 March 2018	26%
 - (ii) Increases in contributions are included in line with the Actuarial Valuation.
 - (iii) Transfer values due in are estimated at £0.5 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
 - (iv) Payroll Paysheets (payments to pensioners) are forecast to increase by £0.2 million per quarter. This figure will alter if there are large numbers of retirements from 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.
 - (v) Payable Paysheets are forecast on the basis of the previous year's profile and 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.

11. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and will be refined to take any new information into account as it becomes available.

Fund Rebalancing

12. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement (ISS). It is also the means by which cash is moved to or from Managers as a consequence of the cash flow forecasts.
13. Following receipt of the lump sum deficit payments from Durham County and Darlington Borough Councils, and having taken advice from the Fund's investment adviser, Mercer, £32 million was distributed to AB on 7 April 2017.
14. There will be no further rebalancing of the Fund this quarter.
15. Following the recent triennial valuation carried out by the Fund's Actuary, now is the time for the Pension Fund to review its investment strategy to ensure that the composition of the investments is appropriate to achieve the level of returns necessary and that future contributions remain affordable.
16. Officers from the Council and Mercer have already started discussing options for the Fund's long term strategic asset allocation; there is an update report from Mercer included in today's agenda.
17. Prior to a decision being made on the revised asset allocation, strict rebalancing of assets back to the exact target allocations as set out in the ISS is suspended.

Recommendation

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

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Actual Cash Flow – For the period 1 April 2016 to 31 March 2017

Quarter Ended (1)	30.06.16		30.09.16		31.12.16		31.03.17	
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)
	£	£	£	£	£	£	£	£
Income								
Contributions - DCC	16,650,000	16,929,884	16,650,000	16,749,648	16,650,000	14,632,881	16,650,000	17,930,972
Contributions - Other	7,800,000	8,801,635	8,200,000	8,408,381	8,200,000	8,426,440	8,200,000	8,245,096
Unfunded pensions recharges	1,120,000	824,479	1,120,000	1,533,757	1,120,000	1,143,127	1,120,000	1,153,285
Transfer Values	500,000	147,693	500,000	286,031	500,000	2,316,672	500,000	1,836,603
Other income	1,000,000	2,781,473	2,000,000	2,624,429	2,000,000	2,704,997	2,000,000	2,801,351
Funds recovered from Managers	0	17,000,000	10,000,000	10,198,377	30,000,000	30,000,000	0	0
Interest on short term investments	20,000	19,395	30,000	24,827	15,000	9,262	3,500	5,255
Total Income	27,090,000	46,504,559	38,500,000	39,825,450	58,485,000	59,233,380	28,473,500	31,972,562
Expenditure								
Payroll Paysheets	22,700,000	22,981,433	22,800,000	23,211,460	23,400,000	23,518,193	23,600,000	23,494,968
Payables Paysheets (incl. Managers' fees)	10,000,000	12,117,843	11,000,000	11,170,473	11,000,000	11,362,602	11,000,000	11,828,106
Funds transferred to Managers	2,760,000	520,000	4,920,000	13,895,000	30,000,000	30,000,000	0	0
Other Expenditure	0	12,394	0	1,115	0	851	0	15,268
Total Expenditure	35,460,000	35,631,670	38,720,000	48,278,048	64,400,000	64,881,646	34,600,000	35,338,342
Surplus / (-) Deficit	-8,370,000	10,872,889	-220,000	-8,452,598	-5,915,000	-5,648,267	-6,126,500	-3,365,780
Balance at Bank (opening)		17,904,838		27,554,055		18,648,105		12,526,070
Balance at Bank (closing)		27,554,055		18,648,105		12,526,070		8,638,064

Projected Cash Flow – Including forecasted dividends receivable by Fund Managers for the period 1 April 2017 to 30 June 2018

Quarter Ended	30.06.17	30.09.17	31.12.17	31.03.18	30.06.18
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Income					
Contributions - DCC	12,450,000	13,040,000	13,040,000	13,040,000	13,040,000
Contributions - DCC & Darlington BC Deficit	65,176,000	995,000	995,000	995,000	1,030,000
Contributions - Other	7,955,000	8,110,000	8,110,000	8,110,000	8,423,000
Unfunded pensions recharges	1,131,000	1,131,000	1,131,000	1,131,000	1,154,000
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	0	0	0	0	0
Interest on short term investments	9,000	12,000	7,000	1,000	0
Total Income	89,221,000	25,788,000	25,783,000	25,777,000	26,147,000
Expenditure					
Payroll Paysheets	23,800,000	24,000,000	24,200,000	24,400,000	24,600,000
Payables Paysheets (incl. Managers' fees)	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Funds transferred to Managers	32,000,000	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Expenditure	66,801,000	35,001,000	35,201,000	35,401,000	35,601,000
Surplus / (-) Deficit	22,420,000	-9,213,000	-9,418,000	-9,624,000	-9,454,000
Balance at Bank (opening)	8,638,064	31,058,064	21,845,064	12,427,064	2,803,064
Balance at Bank (closing)	31,058,064	21,845,064	12,427,064	2,803,064	-6,650,936
Dividends Received by Managers	4,760,000	9,240,000	6,720,000	7,280,000	4,760,000
Net Cash Flow Position	27,180,000	27,000	-2,698,000	-2,344,000	-4,694,000