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## **Pensions Committee**

**26 July 2023**

### **Investment Performance**

#### **Report by Director of Finance and Support Services**

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##### **Summary**

The Pension Fund has a responsibility to ensure there is enough money in the scheme to pay members' pensions as and when they become due. Member benefits are funded through a combination of employee contributions (fixed nationally), investment returns and employer contributions.

Employer contributions are set by the Actuary as part of the actuarial valuation. Total contributions received from 1 April 2023 were £25.4m, reflecting two payroll months. Income from contributions is supplemented by investment income. During the period to 30 June, investment income of £8.0m was received.

Notwithstanding increases to benefit payments, the Pension Fund is still forecasting a positive cashflow during the year.

The Committee have set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work and reflecting the Pension Committee's investment beliefs.

On 30 June 2023, the portfolio was valued at £5,360.7m, a slight increase to 31 March 2023 (£5,332.1m). Overall, the portfolio is marginally overweight "growth" assets (54.0% v 50.0%), and underweight for "income" assets (17.9% v 20.0%) and "protection" assets (27.2% v 30.0%). The Pension Fund also held a small working cash balance.

##### **Recommendation:**

That the Pensions Committee notes the report.

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## **1 Background and context**

- 1.1 The Committee have set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work and reflecting the Pension Committee's funding objectives and investment beliefs. The customised benchmark sets out the intended long-term weighting to various types of investment (or asset classes).

## 2 Pension Fund Account

- 2.1 The table below summarises the income and expenditure relating to dealing with members, employers and others directly involved in the scheme for the year to date.

	<b>1 April to 30 June 2023</b>	<b>2022/23 Actuals</b>
	<b>£'000</b>	<b>£'000</b>
Contributions Received	25,417	151,734
Transfers in from other Pension Funds	1,486	12,315
Benefits Paid	(35,807)	(129,432)
Payment to and on account of leavers	(2,012)	(10,041)
<b>Net</b>	<b>(10,916)</b>	<b>24,576</b>

- 2.2 The table below summarises the income relating to pension fund investments for the year to date (and for 2022/23 as a comparator). Investment income on pooled equity and bond funds is accrued during the year and paid annually (February). Currently this is reinvested in the relevant pooled funds.

<b>Type of income</b>	<b>1 April to 30 June 2023</b>	<b>2022/23 Actuals</b>
	<b>£'000</b>	<b>£'000</b>
Pooled equity fund income	0	32,460
Pooled bond fund income	0	45,269
Private equity income	77	599
Private debt income	2,258	6,285
Infrastructure income	0	14,169
Property income	5,405	22,944
Interest on cash	296	1,058
Stock lending income	0	0
<b>Total</b>	<b>8,036</b>	<b>122,868</b>

### 3 Forward Look

- 3.1 The Strategic Investment Strategy includes a 0% weighting to cash. However, working balances of £10-15m have been considered appropriate to pay pensions, to fund private equity, infrastructure, and commercial property investments and to pay day-today expenses.
- 3.2 The table below considers the current income and expenditure against forecast and whether any adjustments to the assumptions should be made. More detailed cashflow modelling will be developed by officers.

	<b>2023/24 forecast £'000</b>	<b>Commentary</b>
Contributions Received	147,040	Overall contribution receipts were expected to be slightly lower than 2022/23 (£151.7m).  However, contributions received for the first two months of the year are slightly higher than forecast, and more in line with 2022/23 figures.  Active membership remains consistent, and at this stage there does not appear to be a trend towards opt-out or moving to the 50/50 Scheme.
Transfers in from other Pension Funds	10,700	Transfers in is slightly lower than forecast.  However, this activity will depend on membership movements and cannot be predicted with any certainty.
Benefits Paid	(142,380)	Overall benefit payments are expected to be slightly higher than 2022/23 (£129.4m).  Benefits paid for the first three months of the year are in line with forecast.
Payment to and on account of leavers	(9,000)	Transfers out are in line with forecast.  However, this activity will depend on membership movements and cannot be predicted with any certainty.
Rental income	23,561	Rental income was expected to increase compared to 2022/23 (£22.9m).  Initial receipts are slightly below estimates.
<b>Net position</b>	<b>29,921</b>	

- 3.3 There are currently no known employer exits with the potential to be a cashflow pressure.
- 3.4 Income and call requests for private equity and private debt are too uncertain to reflect within the above analysis. However, the Pension Fund currently holds sufficient cash balances to fund anticipated call requests from the underlying managers. The table below summarises the remaining commitments made to private equity and private debt and the Net Asset Value as a proxy for potential income.

<b>Asset class and manager</b>	<b>Estimated outstanding commitment to be called £'000</b>	<b>Valuation on 30 Jun 2023 £'000</b>
<b>Private Equity</b>	<b>89,787</b>	<b>146,956</b>
Pantheon	-	31,529
Partners I	-	21,721
Partners II	89,787	93,706
<b>Private Debt</b>	<b>46,129</b>	<b>213,012</b>
Goldman Sachs	21,506	117,124
ICG	24,623	95,888

## 5 Net Asset Position

5.1 The table below shows the market value of the pension fund's portfolio on 30 June 2023 against the strategic targets. The Committee have agreed an approach to realignment of the portfolio to ensure it remains in line with the strategic benchmark.

<b>Asset Class</b>	<b>Market Value 31 March 2023 £'000</b>	<b>Purchases / Sales £'000</b>	<b>Change in Market Value £'000</b>	<b>Market value 30 June 2023 £'000</b>	<b>Actual % 30 June 23</b>	<b>Target %</b>
<b>Growth</b>	<b>2,843,659</b>	<b>4,541</b>	<b>58,999</b>	<b>2,907,199</b>	<b>54.2%</b>	<b>50%</b>
Equities	2,701,752	0	58,491	2,760,243	51.5%	45%
Private Equity	141,907	4,541	508	146,956	2.7%	5%
<b>Income</b>	<b>946,404</b>	<b>-1,258</b>	<b>12,292</b>	<b>957,438</b>	<b>17.9%</b>	<b>20%</b>
Property	490,475	-5,250	1,450	483,775	9.0%	10%
Private Debt	196,653	3,992	12,367	213,012	4.0%	5%
Infrastructure	259,276	0	1,375	260,651	4.9%	5%
<b>Protection</b>	<b>1,508,459</b>	<b>0</b>	<b>-50,533</b>	<b>1,457,926</b>	<b>27.2%</b>	<b>30%</b>
Fixed Income	1,508,459	0	-50,533	1,457,926	27.2%	30%
<b>Other</b>	<b>33,595</b>			<b>38,715</b>	<b>0.7%</b>	<b>0%</b>
Cash	33,595			38,715	0.7%	0%
<b>Total</b>	<b>5,332,117</b>	<b>3,283</b>	<b>20,758</b>	<b>5,360,681</b>	<b>100%</b>	<b>100%</b>

5.2 Cash balances on 30 June 2023 are invested in line with the Pension Fund's Treasury Management Strategy, as set out below:

	<b>Limit</b>	<b>£'000</b>
Lloyds USD		6,690
Lloyds Euro		1,140
Lloyds GBP		516
Blackrock Sterling Liquidity AAA (4.75%)	£10m	10,000
BNP Paribas Sterling Liquidity Fund AAA (4.93%)	£10m	9,600
Deutsche Sterling Liquidity Fund AAA (4.75%)	£10m	7,800
<b>Sub-total</b>		<b>35,746</b>
Total custodian cash (including accruals for recoverable taxes)		2,969
<b>Total cash</b>		<b>38,715</b>

5.3 Performance information for the first quarter of the year is not yet available.

**6 Other options considered (and reasons for not proposing)**

6.1 N/A

**7 Consultation, engagement and advice**

7.1 N/A

**8 Finance**

8.1 N/A

**9 Risk implications and mitigations**

9.1 Risks associated with this report are covered within the Business Plan agenda item.

**10 Policy alignment and compliance**

10.1 N/A

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**Background papers**

None