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## **Pensions Committee**

**1 November 2023**

### **Financial Information Report**

#### **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 £63.0m, reflecting five payroll months. Income from contributions is supplemented by investment income. During the period to 30 September, investment income of £21.7m was received.

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

The Committee has 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 September 2023, the portfolio was valued at £5,257.1m, a slight decrease to 30 June 2023 (£5,360.7m). Overall, the portfolio is marginally overweight "growth" assets (52.9% v 50.0%) and underweight for "income" assets (17.9% v 20.0%) and "protection" assets (28.4% 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 has 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. All figures are reflective of five months of transactions due to timing of payments.

	<b>1 April to 30 Sept 2023</b>	<b>2022/23 Actuals</b>
	<b>£'000</b>	<b>£'000</b>
Contributions Received	63,027	151,734
Transfers in from other Pension Funds	5,714	12,315
Benefits Paid	(60,985)	(129,432)
Payment to and on account of leavers	(5,201)	(10,041)
<b>Net</b>	<b>2,555</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 Sept 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	304	599
Private debt income	5,979	6,285
Infrastructure income	4,052	14,169
Property income	10,834	22,944
Interest on cash	514	1,058
Stock lending income	0	0
<b>Total</b>	<b>21,683</b>	<b>122,784</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-to-day 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).  The contributions received for the first five months of the year are in line with the forecast.  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 line with forecast.  However, this activity will depend on membership movements and cannot be predicted with any certainty.
Benefits Paid	(142,380)	The pattern of benefit payments to date suggests that overall they will be lower than forecast and more in line with 2022/23 (£129.4m).
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 Sept 2023 £'000</b>
<b>Private Equity</b>	<b>164,683</b>	<b>155,146</b>
Pantheon	-	26,973
Partners I	-	16,931
Partners II	87,077	102,848
Partners III *	77,606	8,394
<b>Private Debt</b>	<b>49,347</b>	<b>206,265</b>
Goldman Sachs	18,097	111,643
ICG	31,250	94,622

\* There has been one call of £8.4m on the Partners III fund following the commitment in September 2023.

#### **4 Net Asset Position**

4.1 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 Sept 2023 £'000</b>	<b>Actual 30 Sept 2023 %</b>	<b>Target %</b>
<b>Growth</b>	<b>2,843,659</b>	<b>12,733</b>	<b>-76,067</b>	<b>2,780,325</b>	<b>52.9%</b>	<b>50%</b>
Equities	2,701,752	0	-76,573	2,625,179	49.9%	45%
Private Equity	141,907	12,733	506	155,146	3.0%	5%
<b>Income</b>	<b>946,404</b>	<b>-9,914</b>	<b>14,922</b>	<b>939,312</b>	<b>17.9%</b>	<b>20%</b>
Property	490,475	-5,250	1,450	474,575	9.0%	10%
Private Debt	196,653	2,841	6,771	206,265	3.9%	5%
Infrastructure	259,276	-7,505	6,701	258,472	4.9%	5%
<b>Protection</b>	<b>1,508,459</b>	<b>0</b>	<b>-12,806</b>	<b>1,495,654</b>	<b>28.4%</b>	<b>30%</b>
Fixed Income	1,508,459	0	-12,806	1,495,654	28.4%	30%
<b>Other</b>	<b>33,595</b>			<b>41,861</b>	<b>0.8%</b>	<b>0%</b>
Cash	33,595			41,861	0.8%	0%
<b>Total</b>	<b>5,332,117</b>	<b>2,819</b>	<b>-73,951</b>	<b>5,255,262</b>	<b>100%</b>	<b>100%</b>

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

<b>Description</b>	<b>Limit</b>	<b>£'000</b>
Lloyds USD		5,262
Lloyds Euro		1,562
Lloyds GBP		28
Blackrock Sterling Liquidity AAA (5.23%)	£10m	10,000
Federated Prime Sterling Liquidity Fund AAA (5.35%)	£10m	10,000
Goldman Sachs Liquidity Fund AAA (5.22%)	£10m	2,000
Morgan Stanley Sterling Liquidity AAA (5.27%)	£10m	10,000
<b>Sub-total</b>		<b>38,852</b>
Total custodian cash (excl. accruals for recoverable taxes)		1,119
<b>Total cash</b>		<b>39,971</b>

4.3 Performance information is reported within the Investment Performance & Funding agenda item.

## **5 Other options considered (and reasons for not proposing)**

5.1 N/A

## **6 Consultation, engagement and advice**

6.1 N/A

## **7 Finance**

7.1 N/A

## **8 Risk implications and mitigations**

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

## **9 Policy alignment and compliance**

9.1 N/A

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**Appendices** None **Background papers** None