

## **Pensions Committee**

**26 April 2024**

### **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 since 1 April 2023 were £147.3m, reflecting 11 payroll months. Income from contributions is supplemented by investment income. Since 1 April 2023 investment income of £137m has been received (of which £87.7m is from pooled funds and currently reinvested within the pooled funds).

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 31 March 2024, the portfolio valuation is estimated at £5,776.8m, an increase to 31 December 2023 (£5,565.7m). Overall, the portfolio is marginally overweight "growth" assets (54.6% v 50.0%) and underweight for "income" assets (16.5% v 20.0%) and "protection" assets (28.0% v 30.0%). The Pension Fund also held a relatively 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. All figures are reflective of eleven months of transactions due to timing of payments.
- 2.2 The forecasts provided are reflective of best estimates at this point in time however, transfers in and out of the scheme are dependent on membership movements and cannot be predicted with any certainty.

	<b>2022/23 Actuals £'000</b>	<b>1 April to 28 February 2024 £'000</b>	<b>1 April to 31 March 2024 Forecast £'000</b>
Contributions Received	151,734	147,258	160,000
Transfers in from other Pension Funds	12,315	11,891	16,000
Benefits Paid	(129,432)	(134,209)	(149,000)
Payment to and on account of leavers	(10,041)	(13,604)	(16,000)
<b>Net</b>	<b>24,576</b>	<b>11,336</b>	<b>11,000</b>

- 2.3 There are potential future employer exits where a surplus may be payable, but these are not expected to cause a cashflow pressure.
- 2.4 The table below summarises the income relating to pension fund investments for since 1 April 23 and for 2022/23 as a comparator). Investment income in pooled equity and bond funds is reinvested in the relevant pooled funds.

<b>Type of income</b>	<b>2022/23 Actuals £'000</b>	<b>Actuals 1 April to 31 March 2024 £'000</b>	<b>Forecast 1 April to March 2024 £'000</b>
Pooled equity fund income	32,460	35,171	35,171
Pooled bond fund income	45,269	52,628	52,628
Private equity income	599	597	597
Private debt income	6,285	10,637	10,637
Infrastructure income	14,169	13,657	13,657
Property income	22,944	22,107	22,107
Interest on cash	1,058	2,516	2,516
<b>Total</b>	<b>122,784</b>	<b>137,312</b>	<b>137,312</b>

### 3 Forward Look

- 3.1 Income and expenditure forecasts for 2024/25 will be produced for the next Pension Committee meeting.
- 3.2 To support the management of the Fund's current and potential cashflow position officers are working with advisors to update cashflow analysis and estimated cashflow projections. Whilst the Fund is currently cashflow positive the initial indications are that in the absence of investment income the Fund is likely to be cashflow negative by 2026. This is after allowing for the pension increases that have occurred in the last 2 years as well as pay growth.
- 3.3 Income and call requests for private equity and private debt are too uncertain to reflect within the above analysis. However, the Pension Fund has a strategy in place to fund any anticipated call requests from the underlying managers. The following table summarises the remaining commitments to be 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 31 March 2024 £'000</b>
<b>Private Equity</b>	<b>168,585</b>	<b>173,270</b>
Pantheon I and II	-	25,883
Pantheon Global Secondary VII	23,583	7,829
Partners I	-	13,419
Partners Secondary 2020	72,896	115,053
Partners Group Direct Equity V	72,106	11,086
* Pantheon Global Select Fund 2024	80,300	-
<b>Private Debt</b>	<b>123,691</b>	<b>230,553</b>
Goldman Sachs	16,944	106,202
ICG 4	25,000	101,097
ICG Senior Debt Partners 5	81,747	23,253
<b>Total Illiquids</b>	<b>372,576</b>	<b>403,823</b>

*\*As at 31.03.24 no calls have been made to the Pantheon Global Select Fund*

- 3.4 The Strategic Investment Strategy includes a 0% weighting to cash. However, working balances of £10-15m have been considered appropriate to pay pension benefits and fund other business as usual expenditure. The implementation of additional commitments to private equity and private debt may present unpredictable drawdowns and distribution patterns which means higher cash balances are being held in the short term.

## 4 Asset Position

4.1 The table below shows the market value of the pension fund's portfolio on 31 March 2024 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 31 Mar 24 £'000</b>	<b>Actual 31 Mar 2024 %</b>	<b>Target %</b>
<b>Growth</b>	<b>2,843,659</b>	<b>65,158</b>	<b>245,465</b>	<b>3,154,282</b>	<b>54.6%</b>	<b>50%</b>
Equities	2,701,752	35,171	244,089	2,981,012	51.6%	45%
Private Equity	141,907	29,987	1,376	173,270	3.0%	5%
<b>Income</b>	<b>946,404</b>	<b>-19,744</b>	<b>26,053</b>	<b>952,713</b>	<b>16.5%</b>	<b>20%</b>
Property	490,475	-18,989	-15,786	455,700	7.9%	10%
Private Debt	196,653	16,944	16,956	230,553	4.0%	5%
Infrastructure	259,276	-17,699	24,883	266,460	4.6%	5%
<b>Protection</b>	<b>1,508,459</b>	<b>52,628</b>	<b>54,161</b>	<b>1,615,248</b>	<b>28.0%</b>	<b>30%</b>
Fixed Income	1,508,459	52,628	54,161	1,615,248	28.0%	30%
<b>Other</b>	<b>33,595</b>			<b>54,584</b>	<b>0.9%</b>	<b>0%</b>
Cash	33,595			54,584	0.9%	0%
<b>Total</b>	<b>5,332,117</b>	<b>98,042</b>	<b>325,679</b>	<b>5,776,827</b>	<b>100%</b>	<b>100%</b>

4.2 Cash balances on 31 March 2024 are invested in line with the Pension Fund's Treasury Management Strategy, as set out in the following table:

<b>Description</b>	<b>Limit</b>	<b>£'000</b>
Lloyds USD		1,434
Lloyds Euro		2,506
Lloyds GBP		213
Blackrock Sterling Liquidity AAA (5.24%)	£10m	10,000
BNP Paribas Liquidity Fund AAA (5.26%)	£10m	10,000
Federated Prime Sterling Liquidity Fund AAA (5.29%)	£10m	10,000
State Street Sterling Liquidity Fund AAA (5.2%)	£10m	10,000
Morgan Stanley Sterling Liquidity AAA (5.20%)	£10m	8,000
<b>Sub-total</b>		<b>52,153</b>
Total custodian cash (incl accruals for recoverable taxes)		2,431
<b>Total cash</b>		<b>54,584</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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### **Background Papers**

None