

LPFA Cashflow Report as at 28 February 2017 Preliminary Month End Data

Purpose and summary

This report provides a preliminary analysis of LPFA cashflow for the 11 month period from April 2016 to the end of February 2017 with commentary on changes in the period.

This report contains the following appendices:

- 1) Cash flow dealings with members
- 2) Counterparties
- 3) Pension fund forecast

Summary

- The preliminary cash balance (excluding cash held with the custodian JP Morgan) as at end of February 2017 is £68.0m, this is more than the targeted minimum £60m. Further cash balances are held within the LDI account with Insight and part of this cash will be withdrawn via disinvestment prior to year end.
- From a counterparties risk perspective, the single largest balance of £9.35m is held with JPM, which is also the Fund's custodian. £8.65m is also held with Lloyds, the Fund's main banker.
- Appendix 1 shows the expected disinvestment of liquid assets (to be taken from the Insight account) before the year end which ensures the cash balance is maintained above the target minimum.

Recommendations:z

[1] Executive Committee is asked to note this report.

Report date: 20th March 2017

Lead Officer: Tom Richardson

Compliance Checks

Governance issues:

The monthly Cashflow report is provided to all Board Members and is published on LPFA's website monthly. It is a key document to track the financial development of the fund.

Financial implications:

Implicit in this report.

Legal implications:

None – The production of this report is voluntary in nature.

Risk implications:

This report is part of the process to manage and monitor the key investment and financial risks facing the fund.

Equalities impact:

Scheme Members will have the opportunity to request alternative formats as required.

Social, environmental, health and ethical issues:

The move to greater online publication is in line with LPFA's environmental initiatives.

Communication issues:

The report is published monthly on the LPFA website.

Other relevant / supporting documentation:

None.

Appendix 1 - Cashflow/Dealings with Members

The following table shows the draft actual cashflows in and out of the fund over the period to 28 February 2017.

The actual cash balance (excluding cash held by the custodian and the main operational account) as at end of February 2017 was £68.0m. The Authority aims to maintain a minimum cash balance of c.£60m (equating to one quarter's benefit payments) as prudent cover for operational requirements.

The above excludes cash held at Insight in respect of the LDI and synthetic equity portfolios.

This analysis has been produced to support evaluation of options available within the portfolio to match the cash flow obligations of the authority; including increasing cashflow yielding assets or identifying assets for future liquidation. Forecast expected divestments in the remainder of this financial year are estimated below.

	Cashflow 2016-17					
	Actual	Actual	Actual	Actual	Forecast	Total
	Q1 2016/17 (Apr to June)	Q2 2016/17 (July to Sept)	Q3 (Oct - Dec 2016)	Q4 (Jan to Feb 2017)	Qtr 4 (Mar) 2016/17	Actual & Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance	-365,586	-211,096	-59,498	-129,927	-71,898	-365,586
Dealings with Members						
Contributions	-44,381	-38,937	-44,461	-29,333	-4,776	-161,887
Transfers in	-2,438	-1,177	-1,847	-1,496	-12,000	-18,958
Benefits paid	63,616	62,003	62,135	41,374	18,382	247,511
Transfers out	1,997	3,743	3,398	2,411	0	11,549
Net Cash Flow	18,794	25,633	19,225	12,956	1,606	78,215
Liquid Investments						
Income	-16,093	-9,247	-6,104	-499	-31,795	-63,738
Income reinvested	1,690	896	815	51	31,722	35,174
RCM currency hedge	8,683	95,713	102,499	9,186	10,500	226,582
Fees & charges (explicit)	8,065	7,207	1,355	772	1,850	19,249
Divestments	-83,131	-127,983	-188,621	-7,235	-300,000	-706,969
Liquid Investments	190,508	137,646	2,500	40,500	146,629	517,783
Net Cash Flow	109,722	104,231	-87,555	42,776	-141,094	28,081
Illiquid Investment Inflows						
Distributions	-13,426	-33,043	-15,308	0	-24,305	-86,081
Calls	37,405	57,019	10,045	0	59,278	163,747
Fees & charges (explicit)	844	669	963	245	4,807	7,528
Net Cash Flow	24,822	24,645	-4,300	245	39,780	85,193
Corporate Costs						
Income	-43	-1,979	-26	-398	-20	-2,466
Expenditure	1,194	-933	2,228	2,450	1,225	6,163
Net Cash Flow	1,151	-2,912	2,201	2,052	1,205	3,697
Total (inflow)/outflow	154,490	151,598	-70,429	58,029	-98,503	195,186
Closing Balance	-211,096	-59,498	-129,927	-71,898	-170,400	-170,400

Assumptions:

- The investment budget figures have now been replaced with forecast figures including the expected disinvestment of assets before the year end.
- The opening balance at April 2016 has been adjusted to exclude cash held with investment managers.

- A delay in completing journal postings has resulted in a variance between the closing balance at end of February 2017 of £71.9m shown in the cashflow table and the actual draft closing cash balance of £68.0m (including operational cash and cash held with the custodian) shown in appendix 2.
- There is a bulk transfer in of £12m expected to be made into the Fund prior to the financial year end.
- Forecast RCM cashflows are based on data as at 16 March 2017.

At 28 February 2017

	Cash Holdings			Currency Hedge Exposure		
	PF £m	RL £m	Credit rating	RCM £m	Moody's Long Term Senior unsecured	S&P Long Term foreign currency
Bank of New York Mellon				0.1	Aa2	AA-
Barclays Bank Plc	4.85	2.35	A-			
Birmingham City Council	2.03	0.99	AA			
Commonwealth Bank of Australia	0.78	0.38	AA-			
Cooperatieve Rabobank U.A.	3.13	1.52	A+			
Danske Bank	4.69	2.28	A			
DBS Bank Ltd	5.63	2.73	AA-			
DZ Bank AG	2.35	1.14	AA-			
Glasgow City Council	0.63	0.30	AA			
Goldman Sachs International Bank	4.22	2.05	A			
Lancashire County Council	0.63	0.30	AA			
Landesbank Hessen-Thüringen Girozentrale (Helaba)	0.78	0.38	A			
Lloyds Bank Plc	8.65	4.20	A			
London Borough Haringey	0.31	0.15	AA			
Mid Suffolk District Council	0.13	0.06	AA			
Nationwide BS	5.01	2.43	A			
Norddeutsche Landesbank Girozentrale	0.63	0.30	A-			
Northern Trust				1.5	A2	AA-
Overseas Chinese Banking Corporation Ltd	3.91	1.90	AA-			
Plymouth City Council	0.63	0.30	AA			
Royal Bank of Canada				1.2	Aa3	AA-
Santander UK plc	4.07	1.97	A			
State Street				7.0	Aa1*	AA-
Sumitomo Mitsui Banking Corporation Europe Ltd	3.75	1.82	A			
The Royal Bank of Scotland Plc	1.85	0.90	UK Government Owned			
Toronto Dominion Bank				0.0	Aa1	AA-
UBS				0.7	A1	A+
Westpac				0.3	Aa2	AA-
JPM	9.35					
Total	67.99	28.46		7.3		

*Moody's Long Term Rating

- The single largest balance of £9.35m is held with JPM which is also the Fund's custodian.
- £8.65m is held with Lloyds which is also the Fund's main banker.
- All cash holdings are lent in accordance with agreed lending lists through the Group Treasury function at the GLA.
- LPFA has specific policies regarding stock lending, our custodian JPM provides a list of proposed borrowers and these are approved by LPFA.
- Currency Hedge counter parties must have a minimum S&P long term foreign issuer credit rating of A and a Moody's long term senior unsecured debt rating of A2. If the counter party falls below the minimum requirement, they are removed from the Bank panel. Please note that State Street have had their senior unsecured debt long term rating withdrawn and there is therefore a breach of this requirement that is being raised with RCM. The withdrawn rating is not necessarily an indicator of financial risk but can also be for administrative reasons. RCM have indicated that this means they look at the long term rating instead.
- The aggregate exposure of any one bank shall not exceed 35% of the sum of the active and passive RCM mandate size, the mandate size as at 28th February was c£1,994m.
- The currency hedge exposure figures shown are Mark to Market.

Counterparty Risk Report
Interest rate, inflation and asset swaps at 28 February 2017

The following tables show the cash impact to LPFA if the interest rate and the inflation rate change by one basis point. For example, at 28 February, if the interest rate increased by one basis point, LPFA would receive a net collateral total of £1,867,218 from the counterparties. If the inflation rate went up by one basis point, LPFA would receive extra collateral of £4,803,767 from all the counterparties.

The collateral required is calculated daily with a minimum transfer amount as stipulated in the individual International Swaps and Derivatives Association (ISDA) Management Agreements. For example the Minimum Transfer Amount (MTA) for Barclays is £175,000 whereas the MTA for HSBC is £250,000. This is to avoid unnecessary collateral movements and to reduce the cost of the transaction.

	Interest Rate Sensitivity PVO1 (£)	Inflation Sensitivity IEO1 (£)
Bank of Nova Scotia	512	153,635
Barclays Bank	37,393	-28,657
BNP Paribas	-54,883	120,354
Citigroup	281,416	27,698
Credit Suisse	6,313	78,204
Deutsche Bank	86,033	656,692
Goldman Sachs	193,750	465,782
HSBC Bank	200,389	1,050,873
JP Morgan	245,494	734,840
Lloyds Bank PLC	89,243	144,265
Merrill Lynch	66,344	579,150
Morgan Stanley	274,712	72,370
Royal Bank of Scotland	194,017	801,796
UBS	246,485	-53,235
Total	1,867,218	4,803,767

Source: Insight Investment

Appendix 3 - Pension Fund Forecast

	Period to end of February			2016-17			
	Budget	Actual	Variance	Budget	Forecast	Variance	Previous variance
	£m	£m	£m	£m	£m	£m	£m
Dealings with members							
Contributions	(149.0)	(157.1)	(8.2)	(162.5)	(161.9)	0.6	0.6
Transfers in	(19.3)	(7.0)	12.4	(21.1)	(19.0)	2.1	2.7
Benefits payable	226.1	229.1	3.0	246.7	247.5	0.8	2.5
Transfers out	19.6	11.5	(8.1)	21.4	11.5	(9.9)	(11.3)
Net dealings with members	77.5	76.6	(0.8)	84.5	78.2	(6.3)	(5.4)
Investment returns							
Investment income	(206.5)	(31.9)	174.6	(225.3)	(63.7)	161.6	161.6
Change in market value	(50.6)	(802.0)	(751.4)	(55.2)	(802.0)	(746.8)	(813.6)
Total investment returns	(257.1)	(833.9)	(576.8)	(280.5)	(865.7)	(585.2)	(652.0)
Management & Administration							
External Fund Managers	25.2	17.4	(7.8)	27.5	19.2	(8.2)	(8.2)
LLPI investment charge	4.3	4.3	(0.0)	4.7	4.7	0.0	0.0
Operational management charge	4.1	3.2	(0.9)	4.5	3.6	(0.9)	(0.9)
Total Management & Admin	33.7	24.9	(8.8)	36.7	27.6	(9.1)	(9.1)
(Increase)/ decrease in fund	(146.0)	(732.4)	(586.4)	(159.3)	(760.0)	(600.7)	(666.6)
Assets at Start of Year	4,553.1	4,553.1	0.0	4,553.1	4,553.1	0.0	0.0
Net increase/(decrease in fund)	146.0	732.4	586.4	159.3	760.0	600.7	666.6
Assets at End of period	4,699.1	5,285.5	586.4	4,712.4	5,313.1	600.7	666.6

The above draft statement shows that the forecast increase in Fund value over the financial year is £760m.

The change in market value is based on draft JPM data and is as such subject to change.