



## **LPFA Cashflow Report as at 31 October 2016 Preliminary Month End Data**

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### **Purpose and summary**

This report provides a preliminary analysis of LPFA cashflow for the 7 month period from April 2016 to the end of October 2016 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 October 2016 is £35.3m, this is less than the targeted £60m but action has been taken to rectify this and the cash balance is currently above target.
- From a counterparties risk perspective, the single largest balance of £7.12m is held with JP Morgan, LPFA's custodian.
- Appendix 1 has been amended to show forecast cashflow for the remainder of the financial year, rather than budget. This includes any expected requirement to disinvest liquid assets before the year end in order to maintain the target cash balance.

### **Recommendations:**

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

**Report date: 22<sup>nd</sup> November 2016**

**Lead Officer: Tom Richardson**

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## Compliance Checks

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### **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 31 October 2016.

The actual cash balance (excluding cash held by the custodian) as at end of October 2016 was £35.3m. 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 and action has therefore been taken to increase the cash balance.

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	Forecast	Forecast	Total
	Q1 2016/17 (Apr to June)	Q2 2016/17 (July to Sept)	Q3 (Oct 2016) 2016/17	Qtr 3 (Nov to Dec) 2016/17	Qtr 4 (Jan to Mar) 2016/17	Actual & Forecast 2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Opening Balance</b>	-365,586	-211,388	-61,617	-48,996	-60,000	-365,586
<b>Dealings with Members</b>						
Contributions	-44,381	-38,937	-15,534	-25,750	-35,216	-159,817
Transfers in	-2,438	-1,177	-407	-12,000	0	-16,022
Benefits paid	63,616	62,003	20,708	41,869	62,577	250,774
Transfers out	1,997	3,743	666	0	0	6,406
<b>Net Cash Flow</b>	<b>18,794</b>	<b>25,633</b>	<b>5,433</b>	<b>4,119</b>	<b>27,361</b>	<b>81,341</b>
<b>Liquid Investments</b>						
Income	-16,093	-9,247	-1,526	-20,864	-31,296	-79,025
Income reinvested	1,690	896	751	20,864	31,296	55,497
RCM currency hedge	8,683	95,713	24,051	29,500	13,300	171,247
Fees & charges (explicit)	8,065	5,633	444	1,748	2,622	18,512
Divestments	-83,131	-127,983	-14,579	-67,312	-84,433	-377,438
Liquid Investments	190,508	137,646	0	0	0	328,154
<b>Net Cash Flow</b>	<b>109,722</b>	<b>102,657</b>	<b>9,141</b>	<b>-36,064</b>	<b>-68,511</b>	<b>116,946</b>
<b>Illiquid Investment Inflows</b>						
Distributions	-13,509	-33,043	-10,359	-22,696	-24,305	-103,911
Calls	37,405	57,019	6,568	39,519	59,278	199,789
Fees & charges (explicit)	635	416	435	3,368	5,052	9,905
<b>Net Cash Flow</b>	<b>24,530</b>	<b>24,392</b>	<b>-3,356</b>	<b>20,191</b>	<b>40,025</b>	<b>105,783</b>
<b>Corporate Costs</b>						
Income	-43	-1,982	-143	-291	-436	-2,894
Expenditure	1,194	-930	1,547	1,040	1,560	4,411
<b>Net Cash Flow</b>	<b>1,151</b>	<b>-2,912</b>	<b>1,403</b>	<b>749</b>	<b>1,124</b>	<b>1,516</b>
<b>Total (inflow)/outflow</b>	<b>154,198</b>	<b>149,771</b>	<b>12,622</b>	<b>-11,004</b>	<b>-0</b>	<b>305,586</b>
<b>Closing Balance</b>	<b>-211,388</b>	<b>-61,617</b>	<b>-48,996</b>	<b>-60,000</b>	<b>-60,000</b>	<b>-60,000</b>

### Assumptions:

- The investment budget figures have now been replaced with forecast figures including any expected requirement to disinvest assets before the year end in order to meet the target cash balance.
- The opening balance at April 2016 has been adjusted to exclude cash held with investment managers.

- A delay in completing investment journal postings has resulted in a variance between the closing balance at end October 2016 of £48.7m shown in the cashflow table and the actual draft closing cash balance of £42.4m (including cash held with the custodian) shown in appendix 2. This is due to be corrected in the next period.
- £50m was transferred from the LDI portfolio into the GLA account in November 2016 and this is included in the forecast quarter 3 divestments.
- There is a bulk transfer in of £12m expected to be made into the Fund in December 2016.
- Forecast RCM cashflows are based on data as at 17 November 2016.

At 31 October 2016

	Cash Holdings			Currency Hedge Exposure		
	PF	RL	Credit rating	RCM	Moodys Long Term Senior unsecured debt rating	S&P Long Term foreign currency issuer credit rating
	£m	£m		£m		
Bank of New York Mellon				- 1.5	Aa2	AA-
Barclays Bank Plc	0.48	0.37	A-			
Close Brothers Group	0.11	0.09	A			
Commonwealth Bank of Australia	0.48	0.37	AA-			
Cooperatieve Rabobank U.A.	0.95	0.74	A+			
Credit Industriel et Commercial	1.52	1.19	A			
Danske Bank	1.90	1.48	A			
DBS Bank	2.86	2.22	AA-			
DZ Bank AG	2.38	1.85	AA-			
Goldman Sachs International Bank	1.90	1.48	A			
ING Bank NV	0.03	0.03	A+			
KBC Bank NV	0.95	0.74	A-			
Kommunalbanken AS	0.38	0.30	AAA			
Landesbank Hessen-Thüringen Girozentrale (Helaba)	1.14	0.89	A			
Landesbank Baden Württemberg	0.95	0.74	A-			
Landeskreditbank Baden-Württemberg Förderbank	0.15	0.12	AAA			
Lloyds Bank Plc	6.16	4.79	A			
Nationwide BS	2.29	1.78	A			
Norddeutsche Landesbank Girozentrale	1.62	1.26	A-			
Northern Trust				- 32.2	A2	AA-
Overseas Chinese Banking Corporation	1.89	1.47	AA-			
Royal Bank of Canada				- 1.3	Aa3	AA-
Santander UK plc	3.43	2.67	A			
State Street				- 17.1	Aa3	AA-
Sumitomo Mitsui Banking Corporation Europe Ltd	1.71	1.33	A			
The Royal Bank of Scotland Plc	0.06	0.05	UK Government Owned			
Toronto Dominion	1.90	1.48	AA-	- 10.2	Aa1	AA-
UBS				- 5.0	A1	A+
JPM	7.12					
<b>Total</b>	<b>42.38</b>	<b>27.44</b>		<b>- 67.3</b>		

- The single largest balance of £7.12m is held with LPFA's custodian JP Morgan.
- All cash holdings are lent in accordance with agreed lending lists through the Group Treasury function at the GLA.
- £6.16m is held with Lloyds which is also the Fund's main banker.
- 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.
- 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 31<sup>st</sup> October was c£1,874m.
- The currency hedge exposure figures shown are Mark to Market.

**Counterparty Risk Report**  
**Interest rate, inflation and asset swaps at 31 October 2016**

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 31 October, if the interest rate increased by one basis point, LPFA would receive a net collateral total of £1,871,038 from the counterparties. If the inflation rate went up by one basis point, LPFA would receive extra collateral of £4,782,399 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.

	<b>Interest Rate Sensitivity PVO1 (£)</b>	<b>Inflation Sensitivity IEO1 (£)</b>
Bank of Nova Scotia	-993	158,547
Barclays Bank	54,041	551,531
BNP Paribas	-13,881	52,635
Citibank	49,798	64,729
Citigroup	238,774	-36,197
Credit Suisse	6,322	79,957
Deutsche Bank	66,940	683,234
Goldman Sachs	183,101	486,259
HSBC Bank	159,037	1,104,252
JP Morgan	139,155	-11,728
JP Morgan Chase	76,380	196,001
Lloyds Bank PLC	66,776	149,153
Merrill Lynch International	47,760	607,466
Morgan Stanley	275,112	75,031
Royal Bank of Scotland	272,302	675,682
UBS	250,414	-54,153
<b>Total</b>	<b>1,871,038</b>	<b>4,782,399</b>

Source: Insight Investment

### Appendix 3 - Pension Fund Forecast

	Period to end of October			2016-17			
	Budget	Actual	Variance	Budget	Forecast	Variance	Previous variance
	£m	£m	£m	£m	£m	£m	£m
<b>Dealings with members</b>							
Contributions	(94.8)	(98.9)	(4.1)	(162.5)	(159.8)	2.7	0.5
Transfers in	(12.3)	(4.0)	8.3	(21.1)	(16.0)	5.1	13.9
Benefits payable	143.9	146.3	2.4	246.7	250.8	4.1	1.0
Transfers out	12.5	6.4	(6.1)	21.4	6.4	(15.0)	(13.6)
<b>Net dealings with members</b>	<b>49.3</b>	<b>49.9</b>	<b>0.6</b>	<b>84.5</b>	<b>81.4</b>	<b>(3.1)</b>	<b>1.8</b>
<b>Investment returns</b>							
Investment income	(131.4)	(26.9)	104.6	(225.3)	(138.8)	86.5	175.3
Change in market value	(32.2)	(593.1)	(560.9)	(55.2)	(593.1)	(537.9)	(251.2)
<b>Total investment returns</b>	<b>(163.6)</b>	<b>(619.9)</b>	<b>(456.3)</b>	<b>(280.5)</b>	<b>(731.9)</b>	<b>(451.4)</b>	<b>(75.9)</b>
<b>Management &amp; Administration</b>							
External Fund Managers	16.0	11.3	(4.7)	27.5	27.5	0.0	0.0
LLPI investment charge	2.8	2.8	0.0	4.7	4.7	0.0	0.0
Operational management charge	2.6	1.8	(0.8)	4.5	3.4	(1.1)	(1.1)
<b>Total Management &amp; Admin</b>	<b>21.4</b>	<b>16.0</b>	<b>(5.5)</b>	<b>36.7</b>	<b>35.6</b>	<b>(1.1)</b>	<b>(1.1)</b>
<b>(Increase)/ decrease in fund</b>	<b>(92.9)</b>	<b>(554.1)</b>	<b>(461.2)</b>	<b>(159.3)</b>	<b>(614.8)</b>	<b>(455.6)</b>	<b>(75.2)</b>
<b>Assets at Start of Year</b>	<b>4,553.1</b>	<b>4,553.1</b>	<b>0.0</b>	<b>4,553.1</b>	<b>4,553.1</b>	<b>0.0</b>	<b>0.0</b>
Net increase/(decrease in fund)	92.9	554.1	461.2	159.3	614.8	455.6	75.2
<b>Assets at End of period</b>	<b>4,646.0</b>	<b>5,107.2</b>	<b>461.2</b>	<b>4,712.4</b>	<b>5,167.9</b>	<b>455.6</b>	<b>75.2</b>

The above draft statement shows that the forecast increase in Fund value over the financial year is £615m.