

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

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### **Purpose and summary**

This report provides a preliminary analysis of LPFA cashflow for the 9 month period from April 2016 to the end of December 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 December 2016 is £116.1m, this is more than the targeted minimum £60m but is expected to reduce to the point further disinvestment is required prior to year end. Please note that there is significant cash available with Insight to cover the required disinvestment and it is likely this will be used to meet the required cash amount.
- From a counterparties risk perspective, the single largest balance of £21.95m is held with Lloyds, which is also the Fund's main banker.
- Appendix 1 shows the expected requirement to disinvest liquid assets before the year end in order to maintain the target cash balance.
- There is a breach against the credit rating requirements of the currency hedge counterparties that is being investigated.

### **Recommendations:**

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

**Report date: 19<sup>th</sup> January 2017**

**Lead Officer: Tom Richardson**

## 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 December 2016.

The actual cash balance (excluding cash held by the custodian and the main operational account) as at end of December 2016 was £116.1m. 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	Forecast	Total
	Q1 2016/17 (Apr to June)	Q2 2016/17 (July to Sept)	Q3 (Oct - Dec 2016) 2016/17	Qtr 4 (Jan to Mar) 2016/17	Actual & Forecast 2016/17
	£'000	£'000	£'000	£'000	£'000
<b>Opening Balance</b>	-365,586	-211,388	-60,043	-131,114	-365,586
<b>Dealings with Members</b>					
Contributions	-44,381	-38,937	-44,505	-34,320	-162,142
Transfers in	-2,438	-1,177	-1,847	-12,000	-17,462
Benefits paid	63,616	62,003	62,156	61,196	248,972
Transfers out	1,997	3,743	3,398	0	9,138
<b>Net Cash Flow</b>	<b>18,794</b>	<b>25,633</b>	<b>19,202</b>	<b>14,876</b>	<b>78,506</b>
<b>Liquid Investments</b>					
Income	-16,093	-9,247	-6,104	-31,296	-62,740
Income reinvested	1,690	896	815	31,296	34,697
RCM currency hedge	8,683	95,713	102,499	25,800	232,695
Fees & charges (explicit)	8,065	7,207	1,355	2,622	19,249
Divestments	-83,131	-127,983	-188,621	-12,871	-412,606
Liquid Investments	190,508	137,646	2,500	0	330,654
<b>Net Cash Flow</b>	<b>109,722</b>	<b>104,231</b>	<b>-87,555</b>	<b>15,551</b>	<b>141,950</b>
<b>Illiquid Investment Inflows</b>					
Distributions	-13,509	-33,043	-15,308	-24,305	-86,165
Calls	37,405	57,019	10,045	59,278	163,747
Fees & charges (explicit)	635	416	589	5,052	6,691
<b>Net Cash Flow</b>	<b>24,530</b>	<b>24,392</b>	<b>-4,675</b>	<b>40,025</b>	<b>84,273</b>
<b>Corporate Costs</b>					
Income	-43	-1,979	-26	-436	-2,484
Expenditure	1,194	-933	1,984	1,097	3,342
<b>Net Cash Flow</b>	<b>1,151</b>	<b>-2,912</b>	<b>1,957</b>	<b>661</b>	<b>858</b>
<b>Total (inflow)/outflow</b>	<b>154,198</b>	<b>151,345</b>	<b>-71,070</b>	<b>71,114</b>	<b>305,587</b>
<b>Closing Balance</b>	<b>-211,388</b>	<b>-60,043</b>	<b>-131,114</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. Current intentions are to move cash held by Insight to cover the required disinvestment.

- 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 December 2016 of £131.1m shown in the cashflow table and the actual draft closing cash balance of £124.5m (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 January 2017.

## Appendix 2 - Counterparties

At 31 December 2016

	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				0.5	Aa2	AA-
Barclays Bank Plc	1.43	0.37	A-			
Birmingham City Council	1.14	0.29	AA			
Commonwealth Bank of Australia	1.43	0.37	AA-			
Cooperatieve Rabobank U.A.	8.59	2.19	A+			
Credit Industriel et Commercial	2.86	0.73	A			
Danske Bank	8.59	2.19	A			
DBS Bank Ltd	8.59	2.19	AA-			
DZ Bank AG	7.15	1.83	AA-			
Goldman Sachs International Bank	5.72	1.46	A			
KBC Bank NV	4.87	1.24	A-			
Landesbank Hessen-Thüringen Girozentrale (Helaba)	3.43	0.88	A			
Landesbank Baden Württemberg	2.86	0.73	A-			
Lloyds Bank Plc	21.95	5.60	A			
Nationwide BS	10.59	2.70	A			
Northern Trust				0.5	A2	AA-
Overseas Chinese Banking Corporation Ltd	8.30	2.12	AA-			
Royal Bank of Canada				0.8	Aa3	AA-
Santander UK plc	7.44	1.90	A			
State Street				11.5	WR	AA-
Sumitomo Mitsui Banking Corporation Europe Ltd	8.01	2.04	A			
The Royal Bank of Scotland Plc	2.94	0.75	UK Government Owned			
Toronto Dominion Bank				5.3	Aa1	AA-
UBS				1.8	A1	A+
Westpac				0.2	Aa2	AA-
JPM	8.64					
<b>Total</b>	<b>124.54</b>	<b>29.56</b>		<b>18.5</b>		

- The single largest balance of £21.95m 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 counterparties 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 counterparty falls below the minimum requirement, they are removed from the Bank panel. Please note that State Street have had their 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.
- 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 30<sup>th</sup> December was c£1,882m.
- The currency hedge exposure figures shown are Mark to Market.

**Counterparty Risk Report**  
**Interest rate, inflation and asset swaps at 31 December 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 December, if the interest rate increased by one basis point, LPFA would receive a net collateral total of £1,964,371 from the counterparties. If the inflation rate went up by one basis point, LPFA would receive extra collateral of £4,613,436 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	292	153,511
Barclays Bank	36,882	-28,934
BNP Paribas	12,015	48,763
Citibank	48,578	62,501
Citigroup	229,751	-34,815
Credit Suisse	6,103	77,428
Deutsche Bank	80,533	650,711
Goldman Sachs	184,742	468,755
HSBC Bank	187,635	1,043,729
JP Morgan	160,545	538,234
JP Morgan Chase	78,626	185,574
Lloyds Bank PLC	87,836	143,039
Merrill Lynch International	62,126	574,543
Morgan Stanley	270,202	74,318
Royal Bank of Scotland	274,396	708,553
UBS	244,109	-52,474
<b>Total</b>	<b>1,964,371</b>	<b>4,613,436</b>

Source: Insight Investment

## Appendix 3 - Pension Fund Forecast

	Period to end of December			2016-17			
	Budget	Actual	Variance	Budget	Forecast	Variance	Previous variance
	£m	£m	£m	£m	£m	£m	£m
<b>Dealings with members</b>							
Contributions	(121.9)	(127.8)	(5.9)	(162.5)	(162.1)	0.4	(5.7)
Transfers in	(15.8)	(5.5)	10.4	(21.1)	(17.5)	3.6	4.6
Benefits payable	185.0	187.8	2.8	246.7	249.0	2.3	1.5
Transfers out	16.1	9.1	(6.9)	21.4	9.1	(12.3)	(13.5)
<b>Net dealings with members</b>	<b>63.4</b>	<b>63.6</b>	<b>0.3</b>	<b>84.5</b>	<b>78.5</b>	<b>(6.0)</b>	<b>(13.1)</b>
<b>Investment returns</b>							
Investment income	(169.0)	(31.4)	137.5	(225.3)	(138.8)	86.5	86.5
Change in market value	(41.4)	(723.3)	(681.9)	(55.2)	(723.3)	(668.1)	(491.2)
<b>Total investment returns</b>	<b>(210.4)</b>	<b>(754.8)</b>	<b>(544.4)</b>	<b>(280.5)</b>	<b>(862.1)</b>	<b>(581.6)</b>	<b>(404.7)</b>
<b>Management &amp; Administration</b>							
External Fund Managers	20.6	13.1	(7.5)	27.5	27.5	0.0	0.0
LLPI investment charge	3.5	3.5	(0.0)	4.7	4.7	0.0	0.0
Operational management charge	3.4	2.2	(1.1)	4.5	3.4	(1.1)	(1.1)
<b>Total Management &amp; Admin</b>	<b>27.5</b>	<b>18.9</b>	<b>(8.7)</b>	<b>36.7</b>	<b>35.6</b>	<b>(1.1)</b>	<b>(1.1)</b>
<b>(Increase)/ decrease in fund</b>	<b>(119.5)</b>	<b>(672.3)</b>	<b>(552.8)</b>	<b>(159.3)</b>	<b>(748.0)</b>	<b>(588.7)</b>	<b>(418.9)</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)	119.5	672.3	552.8	159.3	748.0	588.7	418.9
<b>Assets at End of period</b>	<b>4,672.6</b>	<b>5,225.4</b>	<b>552.8</b>	<b>4,712.4</b>	<b>5,301.1</b>	<b>588.7</b>	<b>418.9</b>

The above draft statement shows that the forecast increase in Fund value over the financial year is £748m.

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