

LPFA Cashflow Report as at 31 May 2017 Preliminary Month End Data

Purpose and summary

This report provides a preliminary analysis of LPFA cashflow for the 2 month period from April - May 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 May 2017 is £325.5m, this ensured the targeted minimum of £60m was met.
- From a counterparties risk perspective, the single largest balance of £52.1m is held with Lloyds, which is also the Fund's main banker. £8.7m is also held with JPM, the Fund's custodian.

Recommendations:

- [1] Executive Committee is asked to note this report ahead of distribution to LPFA Board.**

Report date: 21st May 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 2 month period to 31 May 2017.

The actual cash balance (excluding cash held by the custodian and the main operational account) as at end of May 2017 was £325.5m. 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.

	Cashflow 2017-18					
	Actual	Forecast	Forecast	Forecast	Forecast	Total
	Q1 2017/18 (Apr to May 2017)	Q1 2017/18 (June 2017)	Q2 2017/18 (July to Sept 2017)	Q3 (Oct - Dec 2017) 2017/18	Q4 (Jan to Mar 2018) 2017/18	Actual + Forecast 2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance	-361,197	-312,030	-320,540	-404,898	-350,019	-361,197
Dealings with Members						
Contributions	-33,673	-12,199	-36,597	-36,597	-36,597	-155,663
Transfers in	-1,902	-15,735	-142,953	0	0	-160,590
Benefits paid	50,383	20,995	62,985	62,985	62,985	260,333
Transfers out	1,937	0	0	0	0	1,937
Net Cash Flow	16,745	-6,939	-116,565	26,388	26,388	-53,983
Liquid Investments						
Income	-3,017	-4,013	-12,160	-12,343	-12,529	-44,061
Income reinvested	13	4,013	12,160	12,343	12,529	41,057
RCM currency hedge	16,438	2,100	4,750	3,425	3,425	30,138
Fees & charges (explicit)	692	2,088	6,264	2,396	2,820	14,260
Divestments	-12,119	-12,400	-37,199	-37,199	-37,199	-136,116
Liquid Investments	0	0	0	0	0	0
Net Cash Flow	2,008	-8,212	-26,185	-31,378	-30,954	-94,721
Illiquid Investment Inflows						
Distributions	-5,871	-10,260	-34,899	-30,669	-28,096	-109,795
Calls	34,557	15,943	91,810	88,764	84,481	315,554
Fees & charges (explicit)	8	687	669	963	1,476	3,804
Net Cash Flow	28,693	6,370	57,581	59,058	57,861	209,563
Corporate Costs						
Income	-215	-51	-153	-153	-153	-726
Expenditure	1,937	321	964	964	964	5,151
Net Cash Flow	1,721	270	811	811	811	4,425
Total (inflow)/outflow	49,167	-8,510	-84,358	54,879	54,106	65,284
Closing Balance	-312,030	-320,540	-404,898	-350,019	-295,913	-295,913

Assumptions:

- The forecast figures are based on budget where further information is not yet available and where it is too early in the financial year to identify any possible trends in dealings with members.
- A delay in reporting caused by the transfer from JPM to BONY has delayed journal postings which has resulted in a variance between the closing balance at end of May 2017 of £312.0m shown in the cashflow table and the actual draft closing cash balance of £334.2m (including operational cash and cash held with the custodian) shown in appendix 2.
- Transfer in forecasts are based on the current discussions with our actuarial advisors regarding bulk transfers in from the college sector.

Appendix 2 - Counterparties

At 31 May 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
Australia and New Zealand Banking Group Ltd	3.67	0.30	AA-			
Bank of New York Mellon				0.0	Aa2	AA-
Barclays Bank Plc	30.11	2.49	A-			
Birmingham City Council	11.01	0.91	AA			
Bracknell Forest Borough Council	2.20	0.18	AA			
Cambridgeshire County Council	0.73	0.06	AA			
Commonwealth Bank of Australia	14.69	1.22	AA-			
Coöperatieve Rabobank U.A.	7.34	0.61	A+			
Danske Bank	14.69	1.22	A			
DBS Bank Ltd	22.76	1.88	AA-			
Doncaster Metropolitan Borough Council	7.34	0.61				
Glasgow City Council	7.05	0.58	AA			
Goldman Sachs International Bank	32.31	2.67	A			
Herefordshire Council	3.67	0.30	AA			
Hertfordshire County Council	0.73	0.06	AA			
Lancashire County Council	3.67	0.30	AA			
Landesbank Hessen-Thüringen Girozentrale (Helaba)	5.87	0.49	A			
Leeds City Council	1.47	0.12	AA			
Lloyds Bank Plc	52.09	4.31	A			
London Borough Barking & Dagenham	5.14	0.43	AA			
London Borough Hackney	1.47	0.12	AA			
Merseyside Police and Crime Commissioner	2.20	0.18	AA			
Nationwide BS	9.55	0.79	A			
Northern Trust				0.9	A2	AA-
North Lanarkshire Council	9.55	0.79	AA			
North Tyneside Metropolitan Borough Council	4.99	0.41				
Overseas Chinese Banking Corporation Ltd	23.50	1.95	AA-			
Rhondda Cynon Taf County Borough Council	0.73	0.06	AA			
Royal Bank of Canada				2.6	A1	AA-
Sandwell Metropolitan Borough Council	1.47	0.12				
Santander UK plc	19.09	1.58	A			
State Street				3.3	Aa1*	AA-
Sumitomo Mitsui Banking Corporation Europe Ltd	7.34	0.61	A			
Suffolk County Council	1.47	0.12	AA			
Surrey County Council	1.47	0.12	AA			
Tameside MBC	1.47	0.12	AA			
Telford and Wrekin Council	1.47	0.12	AA			
The Royal Bank of Scotland Plc	2.19	0.18	UK Government Owned			
Toronto Dominion Bank				9.0	Aa2	AA-
UBS				0.6	A1	A+
West Dunbartonshire Council	0.73	0.06	AA			
Westpac				0.7	Aa2	AA-
Woking Borough Council	10.28	0.85	AA			
JPM	8.73					
Total	334.26	26.95		14.6		

*Moody's Long Term Rating

- The single largest balance of £52.09m is held Lloyds which is also the Fund's main banker.
- £8.73m is held with JPM which is also the Fund's custodian.
- 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 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 31st May was c£2,046m.

Counterparty Risk Report
Interest rate, inflation and asset swaps at 31 May 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 31 May, if the interest rate increased by one basis point, LPFA would receive a net collateral total of £1,767,010 from the counterparties. If the inflation rate went up by one basis point, LPFA would receive extra collateral of £4,720,844 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	2,362	149,826
Barclays Bank	32,102	-27,632
BNP Paribas	-46,608	116,111
Citigroup	277,457	27,254
Credit Suisse	8,438	76,924
Deutsche Bank	96,095	646,453
Goldman Sachs	199,063	452,596
HSBC Bank	230,423	1,033,738
JP Morgan	253,674	728,183
Lloyds Bank PLC	94,225	141,568
Merrill Lynch	-21,610	572,159
Morgan Stanley	266,309	68,389
Royal Bank of Scotland	130,970	787,061
UBS	244,110	-51,786
Total	1,767,010	4,720,844

Source: Insight Investment

Appendix 3 - Pension Fund Forecast

	Period to end of May 2017			2017-18			
	Budget	Actual	Variance	Budget	Forecast	Variance	Previous variance
	£m	£m	£m	£m	£m	£m	£m
Dealings with members							
Contributions	(24.4)	(33.7)	(9.3)	(146.4)	(155.7)	(9.3)	(6.7)
Transfers in	(3.9)	(1.9)	2.0	(23.3)	(160.6)	(137.3)	(125.2)
Benefits payable	42.0	50.4	8.4	252.0	260.3	8.3	2.5
Transfers out	4.0	1.9	(2.0)	23.8	1.9	(21.9)	(23.2)
Net dealings with members	17.7	16.7	(0.9)	106.1	(54.0)	(160.1)	(152.5)
Investment returns							
Investment income	(26.6)	(3.0)	23.6	(159.5)	(44.1)	115.4	114.2
Change in market value	(18.3)	(74.0)	(55.7)	(109.7)	(74.0)	35.7	72.0
Total investment returns	(44.9)	(77.0)	(32.2)	(269.2)	(118.1)	151.1	186.2
Management & Administration							
External Fund Managers	4.4	0.7	(3.7)	26.2	14.3	(11.9)	(6.2)
LLPI investment charge	0.8	0.8	0.0	4.7	4.7	0.0	0.0
Operational management charge	0.6	0.6	0.0	3.8	3.8	0.0	0.0
Total Management & Admin	5.8	2.1	(3.7)	34.7	22.8	(11.9)	(6.2)
(Increase)/ decrease in fund	(21.4)	(58.2)	(36.8)	(128.4)	(149.3)	(20.9)	27.4
Assets at Start of Year	5,300.0	5,300.0	0.0	5,300.0	5,300.0	0.0	0.0
Net increase/(decrease in fund)	21.4	58.2	36.8	128.4	149.3	20.9	(27.4)
Assets at End of period	5,321.4	5,358.2	36.8	5,428.4	5,449.3	20.9	(27.4)

The above draft statement shows that the forecast increase in Fund value over the financial year is £149.3m.

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