AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

# London Borough of Bromley Pension Fund

14 March 2016

**Alick Stevenson**
**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)**.

# CASH FLOW MANAGEMENT
# FOR
# THE LONDON BOROUGH OF BROMLEY PENSION FUND

The demographics of the London Borough of Bromley Pension Fund are changing as more active members and deferred members reach pensionable age, and move across to pensioners in payment.
Whilst auto enrolment has increased the number of active members, this is not a universal panacea. The Pension Fund is maturing and is moving quite rapidly from a cash positive position, to cash neutral to cash negative.

As a result demands on the fund's assets are increasing, and while the Bromley Fund remains open and continues to hold significant investments in growth assets (70%), re-investing income as generated, the time is rapidly approaching when that income will need to be called from the fund in order to manage pensions in payment unless another solution is identified and implemented.

For the present, the LGPS remains open to new members and typically continues to provide a well-funded scheme for member benefits. Whilst auto enrolment has increased the number of contributing members, the value of those additional contributions does not meet the increasing demands of members reaching normal requirement age. Based on current forecasts created by the Scheme Actuary, officers and Allenbridge, the Fund will move from an overall positive cash flow in 2016/2020 to approximately cash flow neutral in the period 2020/2021. ***However, cash flow is forecast to turn negative in 2021/22and thereafter.***

*It should be noted, however, that this cash flow forecast is predicated on today's fund demographics, today's interest rates, today's forecast returns for growth assets and dividends and on the current asset allocations of the Fund ie*
*70% global equities*
*20% global fixed income*
*10% diversified growth funds*

***Changes in markets, to the above current asset allocation, to the investment manager structure and to the demographics of the Fund will all impact the cash flow forecast, either positively or negatively. However, based on current assumptions, the cash flow of the Bromley Fund will turn negative within the next few years***

## There are several opportunities available to the PISC by which these shortfalls could be funded

1. **Change the long term strategic asset allocation and create a "cash allocation" of say 5% by reducing other asset allocations**

*Whist this is a reasonable solution in times when interest rates are high, the current market rates would generate little or no income at all and would have a negative impact on overall Fund investment performance*

2. **Do nothing and sell assets on an ad hoc basis to fund shortfalls as they arise**

*Doing nothing apart from selling assets when the fund needs cash is a "governance heavy" method as the PISC and or the officers would need to determine which assets should be sold, from which investment manager and whether the long term strategic asset allocation should be rebalanced and might well be described as a "forced seller" in a disadvantageous market*

3. **Call income derived from dividends and market actions back to the administration ("cash") account of the Fund on a regular and proscribed basis**

*Utilising dividend income from existing investments can present a similar governance challenge. The impact on growth should not be underestimated as the compounding power of dividend reinvestment has historically helped drive equity returns. Removing this opportunity might well impact the overall investment returns of the Fund*

4. **Agree amount required to fund pension shortfall and then instruct a manager or managers to transfer that amount back to the administration ("cash") account on a monthly basis, giving manager (s) discretion as to how they raise the funds**

*Instructing a manager or managers to transfer a fixed amount on a monthly, prescribed basis, would potentially be very "governance heavy" given the possible cost impacts on long term asset allocations/need to constantly rebalance and from disadvantageous markets*

5. **Create a "ring-fenced" investment structure which seeks to generate income rather than capital growth, by managing a number of different asset classes within an investment vehicle specifically designed to generate income to assist in manging projected cash flow short falls**

*A consequence of increasing the number of investment managers is an increased burden on governance budgets and decision making by the PISC. By utilising a pooled investment vehicle or "multi asset fund" the PISC can access a number of asset classes within one wrapped product. Similar in concept to a Diversified Growth Fund, a Multi Asset Fund focuses on income generation rather than capital growth.*

## SUMMARY

**The demographics of the L B Bromley Pension Fund point inexorably towards negative cash flow within the next few years, proactive action will enable the PISC to review several alternative cash flow funding options and agree on a course, or courses, of action.**

**Allenbridge can assist the PISC and officers in their deliberations and would welcome the opportunity of submitting a detailed proposal for consideration.**

Alick Stevenson

March 2016