Pension Fund Treasury Management Strategy (Current version)

1 Introduction

The cash-flow is an important consideration for the Pension Fund. There is a significant outflow of cash each month as pensions and other expenses are paid. These are offset by contributions and other income. Forecasts for the next four years suggests that there will be a net cash outflow excluding income from investments. It is forecast that the income from investments will cover this shortfall. However, this income is subject to economic conditions and if it failed to materialise in line with forecasts could pose a liquidity risk to the Fund. To reduce this risk the Fund has an as part of its strategic cash allocation an allocation to cash and policy of maintain a very liquid cash position of approximately equal to three months' worth of pension payments. At present, this equates to a £70m holding in cash or highly liquid assets as detailed below.

In addition Local Pension Partnership (investments) (LPP i) manage all cash calls and receipts for all funds held with the custodian. As part of this process the custodian will hold cash, including foreign currencies. These balances are outside of this policy.

2 Cash Management Strategy

The key drivers of the Strategy will be the security of the investment and the liquidity. The resources will be managed with the aim of achieving the optimum return on its investments commensurate with proper levels of security and liquidity. It is proposed that the following will be used:

1 Call accounts
2. Reverse Repo's
3. High quality bonds and UK treasury bonds
4. Short term deposits with Local Authorities.

Call Accounts

The Fund will hold call account(s) with UK and Overseas Banks (domiciled in UK). In deciding on the call account the credit rating of the bank is taken into consideration and the bank will have a minimum credit rating of:

Moody's. P1
S&P A1
Fitch. F1

The maximum balance to be held in any call account is £150M.

Reverse repurchase agreements (REPO)

A reverse REPO is when the Fund buys bonds, usually from a bank, on one date and agrees to sell them at an agreed price on an agreed date. These are a very low credit risk investments as the Fund actually takes ownership of the bonds and therefore has an asset should the bank default. It is anticipated that this investment option be used to ensure short term cash is invested securely with the assets being taken as security being government Gilts or other bonds rated as a minimum of AA-.

Bonds

Bonds which are highly liquid and are considered suitable for the policy are:

Covered Bonds- these are long-term secured investments with a bank. They are secured on the bank's residential mortgages and are tradeable. Bonds are over collateralised and therefore usually have an AAA credit rating.

Floating rate notes (FRNs) which are typically issued for a 3 to 5 year term. Because these instruments have their rates re-fixed, at current market rates every 3 months, their price shows a very low sensitivity to changes in market rates, so that although under the current accounting regulations they are classified as long term instruments, in practice they operate as fixed instruments with a maximum of 3 months to maturity and can be liquidated with one or two days' notice.

Short Term Deposits

There is a market for investments to be made with UK local authorities. These are seen as carrying a low credit risk. It would be appropriate for the Fund to invest with other local authorities however as the mandate is to ensure liquidity it is proposed that any fixed term deposit is generally kept for short durations. However, when cash balances are forecast to high for a sustained period, longer fixed term deposit are permitted but it would not normally be for more than 6 months for diversity of cash holdings.

Currency

The purpose of the cash management is to ensure sufficient liquidity with minimal risk. Therefore, all call accounts and investments should be in sterling. There is no mandate within this policy for holding balances in other currencies for the purpose of trying to make gains on currency movements. However, in recognition that some transactions are in non-sterling currencies and in line with LPP’s policy holding of some non-GBP currency at Northern Trust is permitted. These balances are generally expected to be limited to US$ 5 mil and EUR 5 mil (or equivalent in another foreign currency) although can be higher with the knowledge of the Head of Fund or Treasury and Pensions manager.

In line with this policy any foreign currency received should be converted to sterling unless there is a known payment due in the same currency within 10 working days or if the overall balance is below the thresholds listed previously.

Tolerance

Balances can fall below £70m provided there is assurance from LPPi that pending receipts will increase the balance back to the £70m within a week. Conversely, if it is found that the estimated balances are above the cash allocation in the strategic asset allocation for a sustained period consideration should be given to investing the funds in a longer term investment via LPPi.

Borrowing

Borrowing by way of temporary loan or overdraft which is liable to be repaid out of its pension fund can only occur for the purpose of:

(a) paying benefits due under the Scheme; or

(b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

Borrowing can only occur if, at the time of the borrowing, there is a belief that the sum borrowed and interest charged in respect of that sum can be repaid within 90 days of the borrowing.