

LONDON BOROUGH OF HACKNEY

PENSION FUND

**TREASURY MANAGEMENT
STRATEGY**

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PENSION FUND TREASURY MANAGEMENT STRATEGY

Summary

The Pension Fund has sums invested in a wide range of assets, one of which is cash deposits. The Pension Fund Investment Strategy Statement copies of which can be found on the website <http://hackney.xpmemberservices.com>, sets out in greater detail the principles governing the investment of the Pension Fund and how funds will be invested. The following strategy outlines in particular how cash deposits are held, where they should be invested and criteria for investing.

The general principles adopted by the Pension Fund are in line with the wider treasury management strategies adopted by the Fund's Administering Authority, the London Borough of Hackney.

CIPFA has defined Treasury Management as:

“the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The main risks to the Pension Fund's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
- Credit and Counterparty Risk (Security of Investments)
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

Investment Policy

There are three aspects to cash management within the Pension Fund, dependent on where the cash is held, namely:

- cash held on the Pension Fund bank account that is managed using a range of deposits and Money Market Funds by the London Borough of Hackney Financial Services Section,
- cash held by the Pension Fund custodian, HSBC which is awaiting investment by the Fund's external fund managers
- cash held by the Pension Fund administrators, Equiniti Paymaster, in order to meet benefit payments and transfers to other pension funds on behalf of former members

The Pension Fund's general policy objective is to invest its surplus funds prudently. The Pension Fund's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

Cash managed by the Council's Financial Services Section

The Pension Fund will maintain a counterparty list based on the Council's lending criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include, for example:

- Credit Ratings (minimum long-term A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns)
- Credit Default Swaps (where quoted)
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms/potential support from a well-resourced parent institution
- Share Prices (where quoted)
- Macro-economic indicators
- Corporate developments, news and articles and market sentiment

There may however be occasions when the Group Director of Finance and Corporate Resources is called upon to use the delegated powers with respect to Treasury to go outside the published Treasury Management Strategy. These are however only ever likely to be in exceptional circumstances and any decision will be in conjunction with professional advice and be properly recorded.

The Group Director of Finance and Corporate Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements.

The Pension Fund's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates. For these monies, the Pension Fund will mainly invest in:

- UK banks and building societies
- The Debt Management Agency Deposit Facility (DMADF)
- Business Reserve Accounts and Call Accounts
- Money Market Funds with a Constant Net Asset Value (CNAV)
- Money Market Funds with a Variable Net Asset Value (VNAV)
- UK Local Authorities
- UK Central Government
- UK Police and Fire Authorities
- Corporate Institutions

For credit rated counterparties, the minimum criteria will be the short-term, long-term and support ratings assigned by all three main agencies, Fitch, Moody's and Standard & Poor's. The credit rating criteria used for placing deposits will be in line with those of the main Council and a lending list outlining counterparties is updated to reflect any changes made to credit ratings. The Pension Fund will use the same list of counterparties as the Council when making deposits of Pension Fund cash.

When a counterparty/country is upgraded, and meets our other creditworthiness criteria, it will be added to the lending list. Alternatively if any counterparty/country is downgraded, they will be excluded from the list immediately and any outstanding investments will be left to maturity date, but no new investments will be made with the counterparty. In normal market conditions, no investments will be made with any other bank.

However, the Group Director of Finances and Corporate Resources may from time to time agree to invest or retain investments with a bank that falls below the minimum criteria where

the risk to such an investment is assessed as being minimal. Such investments will only be undertaken after due consideration of the facts and under delegated powers to the Group Director of Finance and Corporate Resources.

Approved agreements are currently in place with the same bank as the Council for the conduct of banking business for the Pension Fund. The Group Director of Finance and Corporate Resources is authorised to negotiate appropriate changes to the mandates which may be needed to cover any exceptional market circumstances to protect the Council's finances.

Limits on cash held on deposit and the terms are set out in the below:

- Sufficient cash held on deposit either within the Pension Fund or at the Pension Fund administrators to cover one to two months' worth of benefit and transfer payments, with monies to be invested overnight or on short term deposits;
- Surplus cash outside of that which is required for payment of benefits or transfers will be placed on deposit in accordance with the lending list until such time as the funds are distributed to fund managers for investment. The lending list currently covers 6 funds with a limit of £5m each
- Delegated powers have been given to the Group Director of Finance and Resources to distribute surplus cash to fund managers in accordance with asset allocation benchmarks which have previously been determined by the Pensions Committee.

Cash Held by the Fund Custodian

The Fund's custodian, HSBC, holds cash on behalf of the Pension Fund awaiting investment by the Fund's external fund managers. Currently surplus cash held by the custodian denominated in GBP is swept in or out of a money market fund on a daily basis to maximise the available yield on cash. Cash held with the custodian is typically 1-3% of the total value of the Fund's assets.

The Fund reviews annually a report on the internal controls of HSBC as a service organisation, which is an external audited report detailing the key controls and procedures that the Custodian has in place. In addition to setting out the key operating controls it also details the governance structure. The report helps to provide assurance that there is adequate protection for the Fund's assets and records, ensuring that all transactions are properly recorded where the Custodian has management of the Pension Fund's assets.

Cash held by the Pension Fund Administrator

The Pension Fund Administrator, Equiniti Paymaster, holds cash on behalf of the Pension Fund as part of the normal third party administration process. This enables the administrators to pay benefits on behalf of the Pension Fund, and to make transfer payments to other funds when required for former employees transferring their pension benefits to a new employer. The level of cash is monitored on a monthly basis by officers of the Council to ensure that sufficient cash is held by the administrator to meet such cash requirements, with any surplus cash being returned to the Pension Fund bank account managed by the Council for in-house cash management. Sums held by the Pension Fund administrator are unlikely to exceed 1-2% of the Fund's total assets.

The Fund reviews an annual AAF 01/06 report, an externally audited report detailing the key controls and procedures that the Pension Administrator has in place. In addition to setting out the key operating controls it also details the governance structure. The reports help to provide assurance that there is adequate protection for the Fund's assets and records, ensuring that all transactions are properly recorded where the Pension Administrator has management of the Pension Fund's assets.