APPENDIX 1

Suffolk Pension Fund Treasury Management Strategy 2017/18

Introduction

1. The Pension Fund's treasury management activities relate to two operational areas:

   - In-house Cash: The day to day management of the Pension Fund's cash flows and associated short term cash investments known as "In house cash". These activities are undertaken by the County Council.
   - Custodian Cash: The cash held and managed by the Fund's Custodian, HSBC, as part of the Fund's investment strategy. Longer term investments are administered separately by external fund managers and these activities are covered in the Pension Fund's Statement of Investment Principles.

In House Cash Management Arrangements

2. In undertaking the treasury management activities for the Suffolk Pension Fund, Suffolk County Council will comply with the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2011 edition, (the 2011 Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). A fundamental aim of treasury management is to effectively control the risks associated with treasury management activities and to pursue value for money, in so far as this is consistent with the effective management of risk. The 2011 Code requires the following:

   - A policy statement which states treasury management policies, objectives and approach to risk management.
   - Treasury Management Practices (TMPs) which set out the manner in which the organisation will seek to achieve those policies and objectives, and prescribe how these activities will be managed and controlled. The Pension Fund has adopted the County Council's Treasury Management Practices, subject to the specific requirements in relation to lending and borrowing that are set out in this document.
   - An annual Treasury Management Strategy that outlines the expected treasury activity. The strategy must define the organisation's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Treasury Policy Statement

3. Suffolk County Council has adopted the following as its Treasury Management Policy Statement, as recommended in the 2011 Code:

   a) The Council defines its treasury management activities 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.

b) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into, to manage these risks.

c) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Key objectives

4. The primary objectives of investment activities are:
    - to safeguard the principal sums invested;
    - to ensure adequate liquidity; and
    - to consider investment returns or yield.
5. Surplus cash balances will only be invested on a short term basis (up to a maximum period of 364 days) until the funds are next required. No Pension Fund cash will be invested for longer than 365 days by the County Council.
6. Funds will be invested according to the Secretary of State's definition of 'specified investments', these being sterling deposits made for periods of less than one year, offering high security and high liquidity. Specified investments may include deposits with the UK Government, other local authorities, money market funds and bodies of high credit quality.
7. A lending list will be compiled to include counterparties satisfying the criteria set out within **Annex 1**. The lending limits that will be applied to counterparties satisfying these criteria are also set out within **Annex 1**. Additional operational market information provided by the Council's treasury advisors, Arlingclose, will also be considered before making any specific investment decisions. The criteria for choosing counterparties provide a sound approach to investment in normal market circumstances. However, the Director of Resource Management will determine whether to modify the criteria set out within **Annex 1** according to prevailing market circumstances.

Liquidity

8. Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, at all times, for the achievement of the Pension Fund's objectives. In this respect, the Pension Fund will seek to maintain a contingency of around £10m of cash available at less than one week's

notice in order to meet any short-term requirements arising from expected cash flows.

Performance

9. Investment performance will be measured against the 7 Day London Interbank Bid rate (LIBID); the aim being to achieve investment returns that are equivalent to, or greater than, the average 7 Day LIBID for the year, subject to security and liquidity considerations being fully satisfied.

Interest Rates

10. An estimate of the movement in interest rates over the forthcoming three years provided by Arlingclose is shown below:

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Base rate %	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 months LIBID %	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
1 year LIBID %	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90

Fixed and Variable Interest Rates

11. Given the short term nature of “In-house cash”, no specific limits are proposed on the maximum proportions subject to fixed or variable rates of interest.

Borrowing

12. The administering authority does not have the power to borrow on behalf of the Pension Fund, other than temporary borrowing for the following specific purposes detailed in section 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 :-

    - paying benefits due under the Scheme, or
    - to meet investment commitments arising from the implementation of a decision by the Fund to change the balance between different types of investment.

13. In the context of this strategy, short term borrowing will only be undertaken in exceptional circumstance to manage unexpected cash flow fluctuations which occur as a result of the above circumstances. If short term borrowing is necessary, this will be secured by borrowing from the money markets or other local authorities.

Treasury Management Advisors

14. The County Council employs the services of specialist treasury management advisors, Arlingclose Ltd. Arlingclose provides a range of services, including technical advice on treasury management, interest rate forecasts and information on credit worthiness of potential counterparties. While Arlingclose provides advice to the Council, the responsibility for investment decisions in relation to Pension Fund cash remains with the Pension Fund Committee, with day-to-day decision making delegated to the Director of Resource Management.

Custodian Cash Management Arrangements

15. One of the services provided to the Pension Fund by the Fund’s custodian, HSBC, is a banking service. A separate bank account is set up in the currencies used in each investment manager’s mandate.

16. A “cash sweep” is in place for amounts held at HSBC in sterling and US dollar. This ensures that the balances in these currencies held in HSBC are swept each day into a money market fund managed by HSBC. The HSBC money market fund maintains an AAA mf rating from Moody’s and equivalent ratings from the other two rating agencies, Standard & Poor (S&P) and Fitch.

17. In order to limit the exposure of the Pension Fund to any single financial institution the maximum exposure to the HSBC money market fund has been set at £50m. The total cash holdings with the Custodian will be monitored. If necessary an arrangement will be made with individual managers for them to make direct investments in other money market funds or investment vehicles, so that the maximum limit of £50m for cash with HSBC is not exceeded.

Counterparty Criteria for Investments – In House Cash

Lloyds Bank

1. Lloyds Bank is the Pension Fund's banker, the Pension Fund holds short-term cash balances with the bank as part of its day-to-day cash flow management. The total deposits that the Pension Fund will hold with Lloyds Bank, inclusive of any current account balances, will be a maximum of £25million*.*

Money market funds

2. The Council makes use of money market funds, which are both 'Aaa' rated (the highest rating available) and also have a 'mf' status (in Moody's terminology), which indicates that the fund maintains a constant net asset value. Although Aaa is the highest credit-rating that is available, the Council applies a number of additional criteria in the selection of money market funds based on advice provided by its external treasury advisors.

Money market funds: underlying credit quality

3. The Council's external treasury advisors (Arlingclose) carry out an assessment of money market funds, which considers the underlying quality of the investments within a money market fund's portfolio on a 'look-through' basis. Arlingclose's credit risk score methodology rates a money market fund on the basis of the underlying quality of its portfolio. Arlingclose's credit risk methodology sets a score of 1 to 10 for investment grade investments, with a lower score indicating a better risk assessment. The Council will limit its use of money market funds to those which have a credit risk score of up to 5 according to Arlingclose's methodology. This corresponds to an assessment by Arlingclose of the underlying credit quality of the money market fund's investments of at least A+.

Money market funds: size criteria

4. The Council will also apply a size threshold on any money market fund which it uses. The Council will not invest in any money market fund which has less than £1 billion in funds under management. In addition the Council will limit its investment in any one money market fund to a maximum of 1% of the size of the fund, subject to a maximum limit of £25 million in any one money market fund.

Money market funds: credit ratings

5. Not all money market funds are rated by all three rating agencies. It is a requirement for the use of a money market fund that it is rated by at least two out of three principal rating agencies (Moody's, S&P and Fitch).

Local and public authorities

6. The Council treats UK local authorities as highly likely to receive support from the British government, if this was needed. It will set a counterparty limit for these bodies of £10 million and a duration limit of 364 days.

Counterparty restrictions on aggregate Pension Fund and Suffolk County Council deposits

7. Pension Fund cash that is managed by the County Council will be managed separately from the County Council's own cash and will not be commingled with County Council cash for the purpose of placing money on deposit.

8. In order to manage the exposure of the County Council to counterparty risk, any Pension Fund deposits with a counterparty will be aggregated with those made by the Council for the purpose of deciding the maximum amount that may be placed with any individual counterparty. This will ensure that the combined exposure of the County Council and the Pension Fund to any individual counterparty is kept within prudent limits.