

Cash Management Strategy for the Pension Fund – Management of Cash Balances

Pension Fund Bank Account

The management of the Pension Fund's locally held cash balances is undertaken by the County Council's treasury team in accordance with the Council's Investment Strategy. The Investment Strategy is approved by Full Council and includes credit rating criteria and maximum exposure limits in terms of value and duration. The arrangement is underpinned by a formal Service Level Agreement (SLA) between the Pension Fund and Norfolk County Council (NCC).

The NCC team manage the cash using a range of overnight and term deposits, call accounts and money market funds. The cash balances and returns attributable to the Fund are recorded separately from those of NCC.

Cash held by the Custodian

The custodian of the Fund is Northern Trust. There are three options for Sterling and US Dollar frictional cash held by the investment managers within the Northern Trust custody system:

- Each manager has the option of managing the cash as part of their own treasury management operations, using the counterparty list and lending limits provided by the NCC treasury team. The deals undertaken are monitored for yield comparison and compliance with the NCC counterparty list by the Pension Fund Accounting Team monthly. No manager currently elects to use this option.
- The manager may opt to sweep the cash to an agreed money market fund. Any fund used in this way must be available for Pension Fund purposes on the NCC approved list (and if appropriate, identified for Pension Fund use only).
- For all other Sterling, US Dollar and Euro denominated cash holdings within the Northern Trust custody system, an overnight sweep is undertaken by the custodian and deposited through its cash liquidity investment platform into AAA rated constant NAV (net asset value) money market funds (Sterling, US Dollar and Euro denominated).

The use of the money market fund avoids a large single exposure to the balance sheet of one institution (Northern Trust) for the cash balances of the Fund held within the custody system.

The approach used by the Fund for the management of Pension Fund cash balances is in accordance with the Management and Investment of Funds Regulations and meets the best practice guidance issued by the regulator.

With the approval of Committee, it is intended that the Fund follows the 2024-25 Investment and Treasury Strategy approved by Full Council on 20 February 2024.

Cash Management Strategy – Approved Counterparties for Dynamic Currency Programme

Insight Investment

The external fund manager Insight Investment are responsible for the Pension Fund's dynamic currency hedging programme.

Insight monitors the counterparties used to implement forward currency contracts required by the programme, but the relationship is between the Fund (Administering Authority) and the individual counterparty banks.

The Pension Fund Accountancy Team monitor the permitted counterparties against appropriate credit criteria included within the Administering Authority's approved Investment and Treasury Strategy, using credit ratings and other market material provided by Link Asset Services (treasury advisor to the County Council).

The forward contracts within the Insight programme have a quarterly settlement cycle (cash flow +/-).

The Pension Fund currently allocates non-cash collateral (Gilts), as part of its strategic allocation to protection asset, to cover the variation margin position (notional exchange loss prior to settlement) on foreign exchange currency transactions within the Insight hedging programme. It is working with Insight to remove this collateral requirement. This process may be complete prior to 31 March 2024.

HSBC

The Pension fund is currently in the process of onboarding through a revised arrangement with HSBC on a non-collateralised basis, utilising the Berenberg signalling model, with exposure to the Balance Sheet of HSBC. It is expected that this process will be completed in 2024-25 when a further update will be provided to the Committee.

Strategy approved by Pensions Committee on 12 March 2024.