

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 2 March 2012

Subject: **TREASURY STRATEGY**

Classification: Unrestricted

Summary: To recommend a treasury strategy for the Fund.

FOR DECISION

INTRODUCTION

1. The Superannuation Fund has its own Treasury Strategy and this report is to recommend the counterparties which can be used for depositing surplus cash. The approach recommended has been discussed with Arlingclose who are the County Council's treasury adviser.

CURRENT POSITION

2. The approach to selecting counterparties for the Fund is based upon:
 - Security of funds – this is particularly difficult given that the Fund is not allowed to deposit money with the Debt Management Account Deposit Facility. For local authorities this is the ultimate safe haven for funds but the Superannuation Fund cannot use it.
 - Liquidity – we need to have liquidity to meet financial commitments on a daily basis. Since October NatWest, the Council's clearing bank, has not meet the Council's credit rating criteria so we have not placed deposits with NatWest but transactional cash has been deposited with them.
3. The counterparties agreed for use by the Committee are:
 - (1) JP Morgan Sterling Liquidity Fund (£25m limit) – this is an £8.1bn AAA rated money market fund. JP Morgan is the Fund's custodian and this fund has been used for some time for investment manager cash. This latter point is important as we need to ensure diversification in deposits.
 - (2) Blackrock Institutional Sterling Government Liquidity Fund (£25m limit) and Goldman Sachs Sterling Government Liquidity Reserves Fund (£15m limit) – these funds only hold UK Government fixed

income securities, they are the closest we can get to use of the DMO.

The Fund will at times also have funds in the NatWest Special Interest Bearing Account (SIBA).

4. The Fund has a positive cashflow with a monthly surplus of around £5m. The Partners Group and Harbourvest investments have largely been funded out of cashflow so the Fund has not been accumulating large amounts of Cash.
5. The County Council does not use Money Market Funds so they are a good diversifier for the Superannuation Fund. The use by the Superannuation Fund of bank counterparties would add to the total of "KCC" funds placed with them and thus to potential loss from the failure of any one counterparty.

PROPOSED APPROACH

6. The County Council has accepted Arlingclose's advice to reduce the minimum acceptable credit rating for a bank counterparty to A-. This has brought all the most systemically important UK banks on to the lending list whereas previously only HSBC and Standard Chartered could be used. Reflecting the comments in paragraph 5 it is not recommended that the Superannuation Fund uses bank counterparties other than the NatWest SIBA with a limit of £20m.
7. To avoid an over concentration of funds in the JP Morgan Sterling Liquidity Fund it is recommended that 2 Money Market Funds are added; basically the largest funds which we are not currently invested in which are the Scottish Widows Global Liquidity Fund (£15.4bn) and the Insight Sterling Liquidity Fund (£11.24bn).
8. Arlingclose currently recommend a maximum exposure of 0.5% (for standard AAAM MMF's) and 2% (for Government/Sovereign AAAM MMF's) of the total fund size – for the MMF's this would be in the range of up to £60m. This is considered to be too high and a limit of £20m each is recommended. The Government MMF's are much smaller and the 2% limits would be £50m for Blackrock and £6m for Goldman Sachs. Given that these are our safest deposit options it is proposed that a £20m limit is applied as well.

RECOMMENDATION

9. Members are asked to agree the following counterparties:

- JP Morgan Sterling Liquidity Fund - £20m limit.
- Scottish Widows Global Liquidity Fund - £20m limit.
- Insight Sterling Liquidity Fund - £20m limit.
- Blackrock Institutional Sterling Government Liquidity Fund - £20m limit.
- Goldman Sachs Sterling Government Liquid Reserves Fund - £20m limit.
- Nat West SIBA - £20m limit.

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