By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 29 June 2012
Subject:	**TREASURY MANAGEMENT**
Classification:	Unrestricted

Summary: To agree what action should be taken to secure the Fund's cash holdings.

FOR DECISION

INTRODUCTION

1. The environment for the protection of the Fund's Cash holdings continues to become more challenging and this report updates from the report to Committee on 2 March where the Fund's Treasury Strategy was agreed.

CURRENT POSITION

2. On 2 March the Committee agreed the following counter parties:

    - 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.

3. The Pension Fund is not able to access the Debt Management Account Deposit Facility which is the safest option available for local authority cash.

RECENT DEVELOPMENTS

4. There are two main areas of concern:

   (1) Arlingclose have already reduced their maximum recommended duration for Nat West to overnight and it is widely expected that Moody's will shortly downgrade Nat West (and Lloyds) which would mean we would no longer be able to use the SIBA account.

   (2) We have an over-concentration of funds with JP Morgan. At 25 May the position reported to the Chairman, Vice Chairman and Corporate Director of Finance & Procurement was:

   - Baillie Gifford £21m
   - GSAM £10m
   - Schroders £12m
   - KCC euros 3m
   - KCC £2m
   - KCC $30m

   The investment managers are holding higher than normal levels of cash for obvious reasons. Officers spoke to Baillie Gifford and GSAM and their responses were:

   - Baillie Gifford – have stopped using Santander UK and Clydesdale, using RBS and HSBC. Not options that help our risk spreading.

   - GSAM – proposed using their MMF's we already use the Government MMF they have and using their mainstream MMF does not help diversification.

   (3) Money Market Funds are AAA rated but they face an increasing problem of finding secure counterparties themselves. And the Government Money Market Funds are generally small and have the problem that there is very limited short term gilt issuance by higher rated sovereigns.

PROPOSED WAY FORWARD

5. The reality is that there are very limited options for the Cash. The main options are:

   (1) Move all KCC managed Pension Fund Cash from the JP Morgan Liquidity Fund. This has now been done.

   (2) Set up a current account and call account with HSBC – this would replace the Nat West SIBA. This is underway.

   (3) Officers are looking at options for short term gilt funds and will give an oral update at the meeting.

6. Prior to the separation of KCC and Pension Fund Cash, the Pension Fund would have been able to access the DMADF via KCC. It seems perverse that the instructions to separate the Pension Fund cash from KCC actually exposes the Pension Fund to more risk.

RECOMMENDATION

7. Members are asked to:

   (1) Note the report.

   (2) Delegate authority to the Corporate Director of Finance & procurement in consultation with the Chairman and Vice Chairman to make any arrangements necessary to protect the Fund's cash holdings.

Nick Vickers
Head of Financial Services

Tel: 01622 694603
Mobile: 07920 428575