

Appendix 1

London Borough of Enfield Pension Fund Treasury Management Strategy 2022/23 – 2024/25

The London Borough of Enfield is the Administering Authority of the London Borough of Enfield Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers

PENSION FUND TREASURY MANAGEMENT STRATEGY

The Pension Fund has sums invested in a wide range of assets; cash deposits are one of the asset classes that the Fund can hold investments in.

The Pension Fund Statement of Investment Strategy (ISS), copies of which can be found on the website sets out in greater detail the principles governing the decision making approach on 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 Enfield.

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:

- i) cash held on the Pension Fund bank account that is managed using a range of term and overnight deposits by the London Borough of Enfield Corporate Finance,
- ii) cash held by the Pension Fund custodian, Northern Trust which is awaiting investment by the Fund's external fund managers
- iii) cash held by the Pension Fund, 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 held for Pension Fund Administrating purposes and Cash managed by the Council's

The Pension Fund holds cash for 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 for administration cash requirements, with any surplus cash being returned to the Pension Fund bank account managed by the Council for in-house cash management.

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 Executive Director of 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 Executive Director of 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 cashflow 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:

- Term Deposits with 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)
- Longer Term Investment Funds
- Other Local Authorities

Potential investment options for the longer term investment funds include property, diversified income, equity and bonds funds.

The allocation to these funds will be reviewed and amended to lock in achieved returns. Investments such as property and equities (company shares) do not generate linear returns –

there will be periods of over and under performance. Property and equities have performed well in recent years and given that there is concern that equities in particular will continue to outperform without some losses at some point a cautious approach will be adopted initially in respect to equities.

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 counterparty criteria as the Council when making deposits of Pension Fund cash.

When a counterparty/country is upgraded, and meets the Council's 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 Executive Director of 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 Executive Director of 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 Executive Director of 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; and
- Delegated powers have been given to the Executive Director of Resources to distribute surplus cash to fund managers in accordance with asset allocation benchmarks which have previously been determined by the Pension Policy & Investment Committee.

Cash Held by the Fund Custodian

The Fund's custodian, Northern Trust, 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 Northern Trust 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.