2018-19 Cash Management Strategy for the Norfolk 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 under-pinned 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

There are three options for Sterling and US Dollar frictional cash held by the investment managers within HSBC's 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 on a monthly basis. 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 US Dollar and Sterling denominated cash holdings within the HSBC 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 (US Dollar and Sterling denominated). In order to diversify cash holding risk exposure, the sweep allocates 50% of its US Dollar and GBP cash holdings to the Goldman Sachs liquidity reserves funds with the remaining 50% of the Fund's cash holdings swepted to HSBC money market funds.

Cash balances in other non-Sterling currencies are significantly smaller than the GBP and US Dollar positions. These balances are held overnight on the custodian balance sheet (HSBC). The Fund has an operational policy of minimising Euro cash exposure wherever possible.

Sterling and US Dollar operational and rebalancing monies, including cash to meet the liquidity requirements of the private equity programme, will also be deposited through HSBC's cash liquidity platform and split 50/50 between Goldman Sachs liquidity reserves funds and HSBC money market funds.

The use of the money market fund avoids a large single exposure to the balance sheet of one institution (HSBC) 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.

2018-19 Cash Management Strategy for the Norfolk Pension Fund – Approved Counter-parties for Dynamic Currency Programme

Insight Investment

The external fund manager Insight Investment are responsible for half of the Pension Funds 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 allocates non-cash collateral (Gilts), as part of it's strategic allocation to protection asset, to cover the variation margin position (notional exchange loss prior to settlement) on foreign exchange currency transitions within the Insight hedging programme.

Berenberg Bank

The second half of the dynamic currency hedging programme is managed by Berenberg Bank.

Berenberg Bank are the Fund's counterparty on all trades within the programme it undertakes for the Fund. The Fund has agreed asymmetric credit lines of £15 million (the Fund owes Berenberg) and £1.5 million (Berenberg owes the Fund) in respect of any profits of losses on these activities. Both parties are required to post collateral to cover any balance sheet exposure above these limits but with a minimum transfer amount of £0.5 million i.e. a collateral movement would only be triggered when the actual exposure first reached £15.5 million or £2 million.

The process for the daily monitoring of collateral requirements and movement of collateral is undertaken by the Pension Fund Accountancy Team.

The forward contracts within the Berenberg programme have a monthly settlement cycle (cash flow +/-). This assists in diversifying the profile of the two managers employed to implement the dynamic currency hedging programme.