	Pension Fund Committee **31 January 2023**
Title	**Cash Management Strategy**
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public with separate exempt appendices B, C & D
Urgent	No
Key	No
Enclosures	Appendix A – Briefing Paper on proposed changes to Investment Strategy Statement Appendix B – Hymans paper on Trade Finance Selection (Exempt) Appendix C – Allianz presentation (Exempt) Appendix D – Pemberton presentation (Exempt) Appendix E – Hymans suitability paper on Allianz and Pemberton (Exempt) **This report contains exempt information within the meaning of paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006): Information relating to the financial or business affairs of any particular person (including the authority holding that information).**

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Summary

The Fund does not currently have a strategy to deal with high cash balances and this means that we are not maximising the risk adjusted returns for the funds we hold. This paper, and the briefing papers attached, propose:

1) an amendment to the Investment Strategy Statement to include protocols for Officers to manage high cash balances;

2) the appointment of two Fund Managers that specialise in managing short-term Trade Financing for good credit quality counter parties, which will support the cash management strategy developed

Officers Recommendations

The Pension Fund Committee is requested to:

- Agree to the proposed amendment to the Fund’s Investment Strategy Statement (set out in Appendix A) to include protocols for managing high cash balances

- Agree to the appointment of Trade Finance managers, Allianz and Pemberton, to allow Officers to deliver the cash management strategy, as recommended by our Investment Consultants, Hymans (Hymans papers supporting the recommendation and presentations from both Pemberton and Allianz provided as appendices B to C)

1. WHY THIS REPORT IS NEEDED

Background

1.1. The Pension Fund currently holds high cash balances (over £100m) and we are likely to continue to hold material levels of cash as we implement our Private Holding commitments and as we implement further asset transitions.

1.2. However, our Investment Strategy Statement is silent on how Officers manage high cash balances.

1.3. Previous practice has been to hold up to £25m in a Money Market Fund (“MMF”) with the balance being held within the Fund’s Natwest current account.

1.4. MMFs are highly liquid and ultra-high credit quality funds which are, as a result of this, very low yielding and Natwest offer a very low level of interest and money above £85k exposes us heavily to Natwest’s covenant.

1.5. The level of money held directly with NatWest has been high. For example, last February the Fund held over £50m with Natwest.

1.6. As you will all be aware, interest rates and yields have increased considerably since last summer and so not having a developed strategy around how we manage cash means we are potentially being inefficient with the utilisation of Fund resources.

Proposal

1.7. This paper is asking the Committee to agree to our proposal to:

1) Update to our Investment Strategy Statement to set out how Officers can manage high cash balances when they occur (see Appendix A)

2) Implement two new Fund Managers that specialise in low duration, high credit rating "Trade Finance" Funds that would allow us to achieve a higher return relative to Money Market Funds (currently around 5% p.a. relative to MMF returns of 3% p.a. and a Natwest return of sub 1% p.a.) (See Appendices B to E)

1.8. We estimate that this strategy could generate an additional £1m - £2m of additional return over the next three years.

What are Trade Finance funds?

1.9. Trade Finance Funds specialise in making short-term loans to good credit quality companies, usually to help those companies manage their cash flow in relation to sale of goods and receipt of invoices.

1.10. In the hierarchy of risk, Trade Finances Funds sit at the lower end of the risk spectrum, but they are new Funds to this Committee. The attached paper from Hymans (Appendix B) gives a more detailed explanation of how a Trade Finance Fund works.

1.11. The Committee has also been provided with a separate Training Session on how Trade Finance funds work.

2. REASONS FOR RECOMMENDATIONS

2.1 The Fund currently has no protocols setting out how to manage high cash balances which introduces a governance risk and means that efficient use of funds is less likely to happen.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 Officers will update the Fund's Investment Strategy Statement and work to appoint Allianz and Pemberton as Fund Managers.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The change is expected to generate additional investment income of c£1 - £2m over the next three years.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no direct resources issues for the council however, increasing investment performance should flow through into more stable or lower funding contributions for employers

5.3 Social Value

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review and if necessary, revise the investment strategy.

5.5 Risk Management

5.5.1 Improving clarity of protocols that Officers adopt in the management of high cash balances will reduce governance risk in relation to the Fund

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

6. ENVIRONMENTAL CONSIDERATION

6.1 Not relevant.

7. BACKGROUND PAPERS

7.1 None.