

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2015

- 1 The management of the pension fund cash will be delegated to B&NES Council Treasury Management team.
- 2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.
- 3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.
- 4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.
- 5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.
- 6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.
- 7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	Time limit
Banks and building societies holding long-term credit ratings no lower than A- or equivalent and a Fitch Support Rating (where given) no lower than 3. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£5m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

- 1, Banks within the same group ownership are treated as one bank for limit purposes.
- 2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
- 3, as defined in the Local Government Act 2003

- 8 The cash retained as a working balance will target £10 million.
- 9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.
- 10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.
- 11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

Fitch	Moody's	S&P
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

12, The current credit ratings of counter-parties that would be accepted under the proposed policy are given below.

Proposed Counterparty List - Unsecured Bank Investments
2015/16

	FITCH RATINGS			Moody's Ratings		S&P Ratings	
	S/Term	L/Term	Support	S/Term	L/Term	S/Term	L/Term
UK Banks		Sovereign Rating		AA+		Aa1	AAA
Barclays Bank plc	F1	A	1	P-1	A2	A-1	A
Goldman Sachs International	F1	A		P-1	A2	A-1	A
HSBC Bank plc	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Lloyds Banking Group							
Lloyds Bank plc	F1	A	1	P-1	A1	A-1	A
Bank of Scotland plc	F1	A	1	P-1	A1	A-1	A
Royal Bank of Scotland Group							
National Westminster Bank plc	F1	A	1	P-2	Baa1	A-2	A-
Royal Bank of Scotland plc	F1	A	1	P-2	Baa1	A-2	A-
Santander UK plc (domiciled in UK)	F1	A	1	P-1	A2	A-1	A
Standard Chartered Bank	F1+	AA-	1	P-1	A1	A-1	A+
UK Building Societies							
Nationwide	F1	A	1	P-1	A2	A-1	A
Yorkshire	F1	A-	5	P-2	Baa1	-	-
Coventry	F1	A	5	P-2	A3	-	-
Leeds	F1	A-	5	P-2	A3	-	-
Foreign Banks							
Australia		Sovereign Rating		AAA		Aaa	AAA
Australia & New Zealand Banking Group	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	F1+	AA-	1	P-1	Aa2	A-1+	AA-
National Australia Bank Group							
National Australia Bank Ltd	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Canada		Sovereign Rating		AAA		Aaa	AAA
Bank of Montreal	F1+	AA-	1	P-1	Aa3	A-1	A+
Bank of Nova Scotia	F1+	AA-	1	P-1	Aa2	A-1	A+
Canadian Imperial Bank of Commerce	F1+	AA-	1	P-1	Aa3	A-1	A+
Royal Bank of Canada	F1+	AA	1	P-1	Aa3	A-1+	AA-
Toronto-Dominion Bank	10	AA-	1	P-1	Aa1	A-1+	AA-
Finland		Sovereign Rating		AAA		Aaa	AA+
Nordea Bank Finland ABP	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Pohjola Bank plc	F1	A+	1	P-1	Aa3	A-1+	AA-
Germany		Sovereign Rating		AAA		Aaa	AAA
Deutsche Bank AG	F1+	A+	1	P-2	A3	A-1	A
Landesbank Hessen-Thuringen	F1+	A+	1	P-1	A2	A-1	A
Netherlands		Sovereign Rating		AAA		Aaa	AA+
Bank Nederlandse Gemeenten	F1+	AAA	1	P-1	Aaa	A-1+	AA+
Coöperatieve Centrale Raiffe	F1+	AA-	1	P-1	Aa2	A-1	A+
ING Bank NV	F1+	A+	1	P-1	A2	A-1	A
Singapore		Sovereign Rating		AAA		Aaa	AAA
Development Bank of Singapore Ltd	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	F1+	AA-	1	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Sweden		Sovereign Rating		AAA		Aaa	AAA
Svenska Handelsbanken	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Switzerland		Sovereign Rating		AAA		Aaa	AAA
Credit Suisse AG	F1	A	1	P-1	A1	A-1	A
USA		Sovereign Rating		AAA		Aaa	AA+
J P Morgan Chase Bank NA	F1	A+	1	P-1	Aa3	A-1	A+
Supernational							
Council of Europe Development	F1+	AA+	-	P-1	Aa1	A-1+	AA+
European Bank for Reconstruction & Dev	F1+	AAA	-	P-1	Aaa	A-1+	AAA
European Investment Bank	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Inter-American Development Bank	F1+	AAA	-	P-1	Aaa	A-1+	AAA
IBRD (World Bank)	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Kreditanstalt Fuer Wiefrauf	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Nordic Investment Bank	-	-	-	P-1	Aaa	A-1+	AAA