

## AVON PENSION FUND

### – DRAFT TREASURY MANAGEMENT POLICY 2017

- 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 based outside the Eurozone 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) based outside the Eurozone 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.

| <b>Fitch</b> | <b>Moody's</b> | <b>S&amp;P</b> |
|--------------|----------------|----------------|
| 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.

#### Summary Guide to Credit Ratings

| <b>Rating</b> | <b>Details</b>                                                                                                                                                                                                        |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 an 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 in Appendix 2.