

## AVON PENSION FUND

### – DRAFT TREASURY MANAGEMENT POLICY 2020

- 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:-

	<b>Maximum Monetary limit</b>	<b>Time limit</b>
Banks and building societies based outside the Eurozone holding long-term credit ratings no lower than A- or equivalent. (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

<sup>1</sup> Banks within the same group ownership are treated as one bank for limit purposes.

<sup>2</sup> as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003

<sup>3</sup> as defined in the Local Government Act 2003

- 8 The cash retained as the required 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 – denote the lowest expectation of credit risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality - denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
B	Highly speculative - indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, 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 - A default or default-like process has begun, or the issuer is in standstill, or for a closed funding vehicle, payment capacity is irrevocably impaired.
RD	Restricted default - indicate an issuer that in Fitch's opinion has experienced: a. an uncured payment default or distressed debt exchange on a bond, loan or other material financial obligation, but b. has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and c. 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 that has otherwise ceased business.

- 12 The current credit ratings of counterparties that would be accepted under the proposed policy are given in Appendix 2.