WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
23rd March 2023

TREASURY MANAGEMENT STRATEGY

Purpose of the Report

1. This report provides Members' with the Treasury Management Strategy for 2023/24 and performance information of the treasury function provided by Wiltshire Council treasury team on behalf of the pension fund.

Background

2. The primary purpose of the Treasury Management Strategy at Wiltshire Pension Fund is to ensure sufficient cash is available to pay liabilities when they fall due whilst minimising lost investment returns from holding assets outside of strategic investment allocations. This paper includes the Treasury management strategy for the year ahead, this will be implemented as soon as the SALAMI portfolio IMA is signed. This Treasury strategy was last approved in March 2022 and since then officers have been implementing the new SALAMI portfolio which will go live by the end of Q1 2023.

3. The Council treasury team provides a treasury service for all cash held outside of the funds main investments, these funds are held in a bank account and invested via money market funds. This is used to meet the operational cash flow needs. Attached to this report is performance data for the financial year ending March 2022, similar data will be available for year ending March 2023 once the financial year is completed.

4. The key points to note from the Council report are that there were no breaches of counterparty limits in the year ending March 2022 and the average interest earned on deposits was 0.13%.

5. Whilst the full report for year ending March 2023 is not yet available, year to date there were no breaches of counterparty limits and the average interest earned on deposits was 1.72%

Fund Strategy Alignment

6. The Treasury Management Strategy aligns with the following strategic vision goals.

Environmental Impact of the Proposal

7. There is no known environmental impact of this proposal.

Proposals

8. The Committee is asked to:
    a) Approve the attached Treasury Management Strategy
    b) Note performance by the Council Treasury team to March 2022.

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Unpublished documents relied upon in the production of this report: NONE

Appendices:
Appendix 1 – Wiltshire Council Treasury Team report.

APPENDIX A

WILTSHIRE PENSION FUND
TREASURY MANAGEMENT STRATEGY

1. Introduction

1.1. The primary purpose of the Treasury Management Strategy at Wiltshire Pension Fund is to ensure sufficient cash is available to pay liabilities when they fall due whilst minimising lost investment returns from holding assets outside of strategic investment allocations.

1.2. The Fund has two key categories of cashflows to consider when setting the strategy;

- **Regular Operational Cashflows *(Members payments)***
  - Monthly pension payments (paid on the 25th of each month) and twice weekly one-off payments (lump sums, transfers out etc)
  - Monthly employer and employee contributions (due by 19th of each month)
  - Running costs of the pension fund

- **Investment Cashflows**
  - Private market capital calls and capital distributions
  - Strategic asset allocation rebalancing

1.3. Over a financial year the fund has a small net inflow from the operational cashflows, with income received from contributions and transfers in marginally exceeding the cost of pensions paid, transfers out and fund running costs. Employer contributions are received by the 19th of each month increasing the cash balance ahead of the payroll being paid on the 25th of each month. Average operational cash inflow per month in 2022/23 was £12.2m and outflow was £10.4m.

1.4. The investment cashflows come from commitments to private markets portfolios with Brunel (Private Equity, Private Debt, Infrastructure), Partners Group (Infrastructure), and two new portfolios being run by the Fund (Affordable Housing and Renewable Infrastructure). These investments have an initial period where capital is called then after time these start to pay out capital distributions at the end of the fund life.

1.5. There are ad-hoc movements between investment portfolios to rebalance the investments in line with the strategic asset allocation. These are often completed through divestment and reinvestment with another manager.

2. Investment Strategy

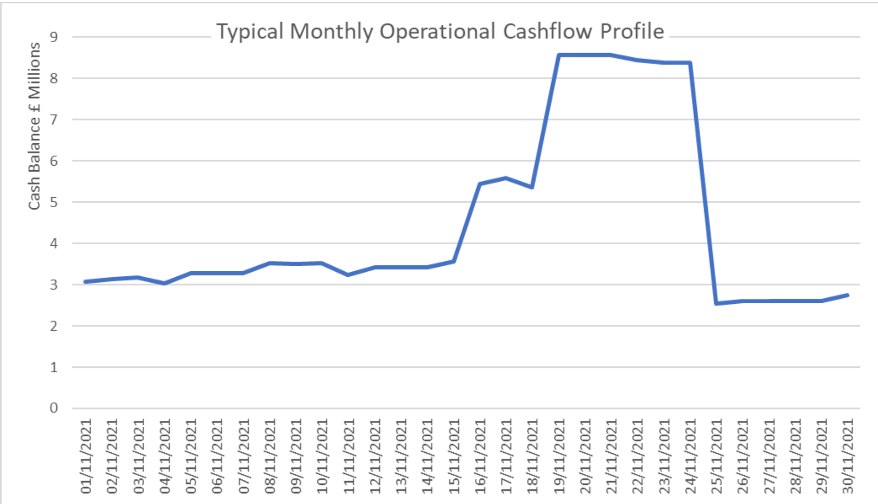
2.1. The two cashflow categories (Regular Operational and Investment) require different approaches to meet the strategy aims. The Regular Operational cashflows are more predictable, to some extent within the funds control, are forecastable and much lower in value. The Investment cashflows are irregular in timing, have a short notice period and are often very large values. To accommodate these differences each has a strategy best suited to the cashflow type.

2.2. Despite the differences there are a few overriding principles that will apply to strategies.

2.2.1. The investments must have short term liquidity, within 1 working day.
2.2.2. Suitable levels of investment return should be achieved.
2.2.3. Reputable and highly rated financial institutions will be used.
2.2.4. Investments must be in Sterling.
2.2.5. Direct investments with counterparties are not permitted (e.g. direct deals with banks or other local authorities for fixed time periods).
2.2.6. Investments must take into account wider fund objectives, e.g. Net Zero by 2050.

3. Operational Cash Flow strategy

3.1. The operational cashflow strategy is mainly driven by the receipt of employer contributions, by the 19th of each month and the payment of the pensioner payroll on 25th of each month. This results in a spike of cash of around £6m - £7m for the period of time between these two dates. As set out below in the typical monthly profile.



3.2. Outside of the spike in cash sufficient cash must be held to ensure any large payments can be met. Payment runs for these are made twice weekly and are on average £300k - £400k.

3.3. Given the short-term cyclical nature of the cash surplus on these funds this surplus cash will be managed in line with the following principles.

3.3.1. A maximum balance of £10m to be held at any point.

3.3.2. The cash balance will be maintained as low as possible throughout the month.

3.3.3. The cash balance will never become overdrawn.

3.3.4. Surplus cash will be invested in a AAA-rated Money Market Fund managed by an approved investment manager with daily liquidity.

3.3.5. A maximum of £10m to be held with a single counterparty.

3.3.6. Any cash forecast to exceed the maximum balance will be reinvested into the Funds investment portfolios.

3.3.7. Any forecast shortfall in cash will be topped up from cash withdrawn from the Funds investment portfolios.

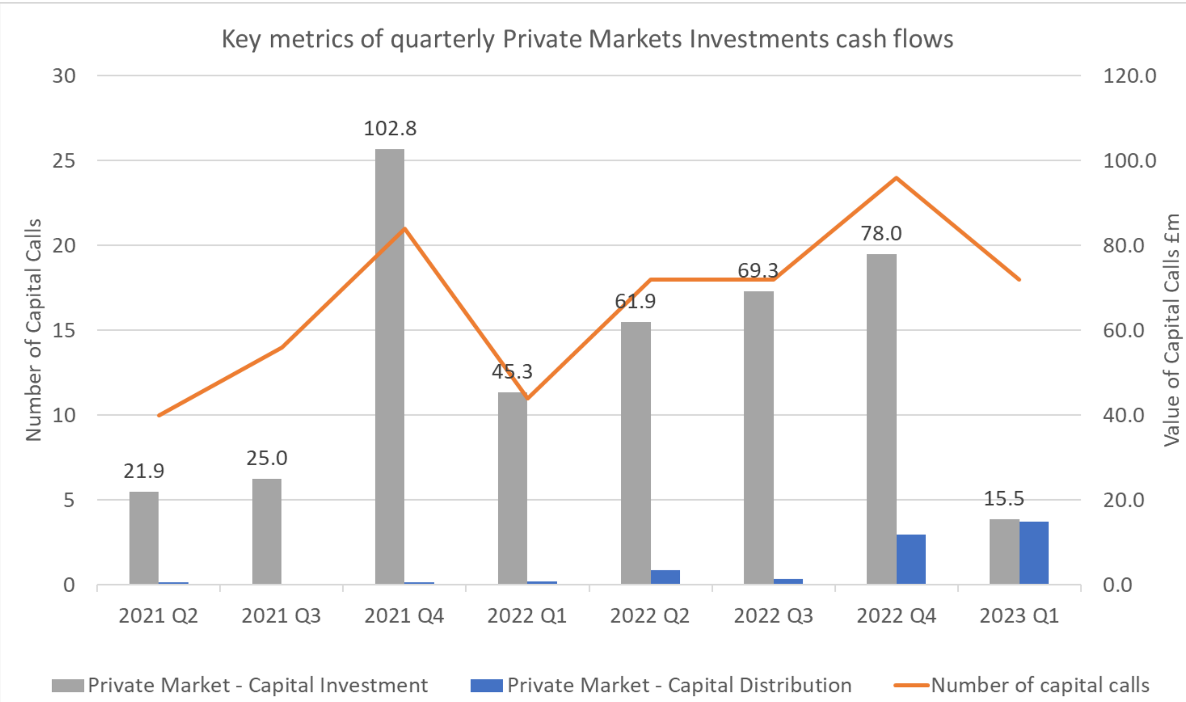
3.3.8. No investment will be made in the same funds used by the Custodian to invest any cash it holds on behalf of the Fund's investment managers.

3.4. The fund will apply these principles across two accounts used to manage operational cash, a current account for making and receiving payments, supported by a separate Money Market Fund to hold any short-term surplus cash.

3.5. Money market funds provide negligible levels of return but will ensure cash is available to pay key liabilities when they fall due. Minimising the value held within this strategy is key to lower the negative impact of lost investment returns. The very short period of time when a surplus of cash will be held also lowers this risk.

4. Investment Cashflow Strategy

4.1. The Investment Cashflow strategy is driven by the need to meet high value short notice capital calls. The following table shows recent capital calls and distribution cashflows. Average monthly capital investments have been £20.2m, with a range of between £5m and £43m. Capital calls typically have 10 working days' notice for payment to be made.



4.2. The value and volume of capital calls will increase over the next few years as the fund builds up investments in these asset classes to meet the strategic asset allocation. Once the target allocation has been reached activity will remain high as new calls will be required to offset distributions being received. Forecasting of these cashflows on an annual basis is shown below, anticipating an average monthly outflow of £14m - £17m. This will increase as allocations to affordable housing and renewable infrastructure have been made.

WPF Private Markets Calls and Distributions Forecasting					
Portfolio	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**
Drawdowns					
Private equity	(31.5)	(47.3)	(59.5)	(65.5)	(61.0)
Brunel infrastructure	(16.0)	(30.0)	(44.0)	(58.0)	(64.0)
Private debt	(63.0)	(87.0)	(83.0)	(80.0)	(80.0)
Secured income (Greencoat)	(66.0)	0.0	0.0	0.0	0.0
Partners infra	(15.0)	(10.0)	(5.0)	(2.0)	0.0
Total	**(191.5)**	**(174.3)**	**(191.5)**	**(205.5)**	**(205.0)**
Distributions					
Private equity	0.9	3.5	9.6	18.4	33.0
Brunel infrastructure	0.0	0.0	2.0	4.0	9.5
Private debt	0.0	9.0	18.0	26.0	52.0
Secured income (Greencoat)	3.4	3.4	3.5	3.6	3.7
Partners infra	8.0	14.0	17.0	18.0	17.0
Total	**12.2**	**29.9**	**50.1**	**70.0**	**115.2**
Total net cashflow	**(179.3)**	**(144.3)**	**(141.4)**	**(135.5)**	**(89.8)**
Average Monthly Drawdowns	**(16.0)**	**(14.5)**	**(16.0)**	**(17.1)**	**(17.1)**

4.3. Given the high value and irregular nature of these cashflows, funds will be managed in line with the following principles;

4.3.1. An allocation of between 0% and 2% of the total Fund value will be held in a strategic allocation to liquid asset matching investments (SALAMI portfolio). (As at December 2022 - £0m to £66m)

4.3.2. The SALAMI portfolio will utilise Exchange Traded Funds (ETF’s) to broadly match the overall Fund SAA return with a low tracking error.

4.3.3. The SALAMI portfolio will provide T+1 liquidity.

4.3.4. The SALAMI portfolio will be provided by a reputable Investment Manager who will carry out dealing and fund balancing on the Fund’s behalf.

4.3.5. The portfolio will be managed through the Fund’s custodian with reporting on investment performance quarterly to the Committee.

4.3.6. At times it is necessary for cash to be held by the Fund’s custodian, this happens when assets are moving between investment portfolios, such as when distributions are received. The Fund’s custodian manages this cash in line with its own policies, making use of money market funds to provide a minimum level of return on this cash. Cash is only held in these accounts for the minimum possible duration for periods between deals.

4.4. The principles of this policy enable the fund to minimise the impact of ‘cash drag’ This is when the fund holds large values of cash which earn a lower or different rate to the overall strategic asset allocation, lowering overall return. The SALAMI Portfolio should ensure the investment return on any assets held here broadly match the overall return of the Funds investment portfolio, eliminating the impact of cash drag.

4.5. The SALAMI portfolio will provide an efficient and reliable administrative process to ensure funds are available to meet capital calls and other liabilities, significantly reducing the risk any of these cannot be met which would have significant contractual implications for the Fund.

4.6. Following a competitive tender process BlackRock have been appointed as the investment manager to run the SALAMI portfolio.

5. Borrowing Policy

5.1. The Fund is not permitted to borrow under the regulations, except by way of a short-term loan or overdraft from a bank (repayable within 90 days), and then only in exceptional circumstances where funds are required for:

- Paying benefits due under the Scheme; or

- Meeting investment commitments arising from the implementation of a decision by the Committee to change the balance between the different types of investment.

6. Operational Implementation and Reporting

6.1. Management of the Operational Cashflow strategy will be carried out by the Wiltshire Council Treasury management team under a Service Level Agreement. All assets are invested separately from the Council's and all monies will be paid out of and received back into the Pension Fund bank account.

6.2. Management of the Investment Cashflow strategy will be carried out by Pension Fund Officers ensuring the allocation remains within the permitted range. They will oversee the Investment manager implementing the Liquidity Sleeve, receiving regular reporting and meeting to review performance against target.

6.3. Reporting of performance against this strategy will be provided quarterly to the committee via the Key Financial Controls Report and Investment Quarterly Update.

7. Regulatory Context

7.1. In setting this strategy the Fund has taken regard of the following relevant regulations and legislation.

7.1.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force 1 November 2016.

7.1.2. The Ministry of Housing Communities and Local Government's (MHCLG's) Guidance on Local Government Investments ("the Guidance") issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018 and any revisions to that Guidance

7.1.3. The 2017 revised CIPFA Treasury Management in Public Services Code of Practice ("the CIPFA TM Code"); and Cross Sectoral Guidance Notes;

7.1.4. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any revisions to these regulations.