

LONDON BOROUGH OF HACKNEY

PENSION FUND

**TREASURY MANAGEMENT
STRATEGY**

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PENSION FUND TREASURY MANAGEMENT STRATEGY

Summary

The 2026 - 2029 Pension Fund Treasury Management Strategy focuses on managing short-term cash balances needed for daily operations, paying pensions and receiving contributions, while investment cash is handled by investment pools. Priorities are security and liquidity over high returns, following CIPFA codes.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations) state that Administering Authorities must hold in a separate bank account all monies held on behalf of the Fund. The Regulations also state that the Administering Authority must formulate an investment strategy to govern how the Pension Fund invests money that is not needed immediately to make payments from the Fund.

The strategy is broadly consistent to that agreed for 2023 - 2026 and is purely in relation to the management of cash, not the rest of the Fund's investments. From April 2026, this Treasury Management Strategy will only apply to cash held for the purpose of paying pensions in the short term (up to one year). Investment cash will be managed by the Pension Fund's investment pool, the London CIV.

The Pension Fund Investment Strategy Statement, copies of which can be found on the website <https://hackneypension.co.uk>, sets out in greater detail the principles governing the investment of the Pension Fund and how funds will be invested. The following strategy outlines in particular how operational cash deposits are held, where they should be invested, and the criteria for investing.

The general principles adopted by the Pension Fund align with the wider treasury management strategies adopted by the Fund's Administering Authority, the London Borough of Hackney.

CIPFA has defined Treasury Management as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The main risks to the Pension Fund's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
- Credit and Counterparty Risk (Security of Investments)
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

Investment Policy

There are three aspects to cash management within the Pension Fund, dependent on

where the cash is held, namely:

- Operational Cash: Cash held in the two Pension Fund bank accounts to meet benefit payments, transfers to other funds, payment of Fund invoices and other expenditures.
Operational cash from both bank accounts not immediately required is managed by the Treasury Team using a range of deposits and Money Market Funds.
- Cash held by the Pension Fund custodian, Northern Trust, permits the Fund's Fixed Income manager Columbia Threadneedle (CTI) to manage its derivative margin requirements and pay capital calls. In accordance with the 2026 LGPS regulations, from April 2026, London CIV, the asset pool, will manage this cash. The Pension Fund's investment managers are responsible for investing cash held within their portfolios, and this policy does not relate to their cash investments.

The Pension Fund's general policy objective is to invest its surplus funds prudently. The Pension Fund's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The Pension Fund will maintain a counterparty list based on the Council's lending criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include, for example:

- Credit Ratings (minimum long-term A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns)
- Credit Default Swaps (where quoted)
- Gross Domestic Product; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms/potential support from a well-resourced parent institution
- Share Prices (where quoted)
- Macroeconomic indicators
- Corporate developments, news and articles and market sentiment

However, there may be occasions when the Group Director, Finance and Corporate Resources must use delegated Treasury powers to deviate from the published Treasury Management Strategy. However, these instances are likely only to occur in exceptional circumstances and any decision will be properly recorded and made in conjunction with professional advice.

Under delegated powers, the Group Director, Finance and Corporate Resources will undertake the most appropriate investments, consistent with the investment objectives, income and risk management requirements.

The Pension Fund's shorter term cash flow investments reference the outlook for the UK Bank Rate and money market rates. For these monies, the Pension Fund will mainly invest in:

- UK banks and building societies
- The Debt Management Agency Deposit Facility (DMADF)
- Business Reserve Accounts and Call Accounts
- Money Market Funds with a Variable Net Asset Value (VNAV)
- UK Local Authorities
- UK Central Government
- UK Police and Fire Authorities
- Corporate Institutions

For credit-rated counterparties, the minimum criteria will be the short-term, long-term and support ratings assigned by all three main agencies: Fitch, Moody's and Standard & Poor's. The credit rating criteria used for placing deposits will align with those of the main Council and a lending list outlining counterparties is updated to reflect any changes to credit ratings. The Pension Fund will use the Council's list of counterparties when investing Pension Fund cash.

When a counterparty/country is upgraded, and meets our other creditworthiness criteria, it will be added to the lending list. Alternatively if any counterparty/country is downgraded, it will be excluded from the list immediately. Any outstanding investments will be left to mature, but no new investments will be made with that counterparty. In normal market conditions, no investments will be made with any other bank.

The Group Director, Finances and Corporate Resources may occasionally agree to invest or retain investments with a bank that falls below the minimum criteria if the risk to such an investment is assessed as minimal. Such investments will only be undertaken after due consideration of the facts and under delegated powers to the Group Director, Finance and Corporate Resources.

Approved agreements are currently in place with the same bank as the Council for conducting banking business for the Pension Fund. The Group Director, Finance and Corporate Resources is authorised to negotiate appropriate changes to the mandates needed to cover any exceptional market circumstances to protect the Council's finances.

Limits on cash held on deposit and the terms are set out in the below:

- Sufficient cash held on deposit either within the Pension Fund or at the Pension Fund administrators to cover one to two months' worth of benefit, transfer and invoice payments, with monies to be invested overnight or on short term deposits;
- Surplus cash outside of that which is required for payment of benefits, transfers or invoices will be placed on deposit in accordance with the lending list until such time as the funds are distributed to fund managers for investment. The lending list currently covers 6 funds with a limit of £5m each

Cash Held by the Fund Custodian

From April 2026, the 2026 LGPS regulations in draft at the time of writing this report require cash held by the Fund custodian to be managed by the asset pool London CIV

The Fund reviews annually a report on the internal controls of Northern Trust as a service organisation, which is an external audited report detailing the key controls and procedures that the Custodian has in place. In addition to setting out the key operating controls it also

details the governance structure. The report helps ensure adequate protection for the Fund's assets and records.

Due to having some investments denominated in other currencies, the Fund will also make use of accounts in those currencies with the custodian. Cash will only be held in these other currencies when distributions are received from investments denominated in those currencies and pending drawdown of commitments to investments denominated in those currencies.

Exchange rate risk: The Fund's cash management arrangements do not involve significant exposure to currency fluctuations; therefore, no special arrangements will be made to eliminate foreign exchange exposure.

Pension Fund Administrator

The Pension Fund Administrator (LPPA) does not operate a bank account on behalf of the Fund. However, as part of the normal third party administration process, LPPA processes benefit payments, death grants, and transfer payments to other funds on behalf of the Pension Fund.

The Fund reviews LPPA's annual AAF 01/06 report, an externally audited report detailing the key controls and procedures the Pension Administrator has in place. In addition to setting out the key operating controls, the report also details the governance structure. The reports help to provide assurance that the Fund's records have adequate protection, ensuring all transactions are properly recorded.

Investment Strategy Statement

Rebalancing activities: From April 2026, rebalancing activities fall outside the treasury management strategy. The asset pool London CIV takes over this task. The table below shows the Investment Strategy Statement approved asset allocation effective from 1 April 2026.

	Asset Allocation (%)	Tolerance Range (+/-%)
Listed Equity	45.0	45.0 - 50.0
Private Equity	0.00	0.0 - 2.0
Private Credit	7.0	4.0 - 10.0
Property/Real Estate	12.0	10.0 - 14.0
Infrastructure	5.0	3.0 - 7.0
Other Alternatives	9.0	6.0 - 12.0
Credit	5.0	3.0 - 7.0
UK Government Bonds	17.0	14.0 - 20.0
Cash*	1.0	1.0 - 5.5
- Investment Cash	0.0	0.0 - 3.0
- Operational Cash	1.0	0.5 - 2.5

*Fund is responsible for managing operational cash at the Fund.