Public Document Pack

Financial Investment Board

Date: THURSDAY, 5 FEBRUARY 2015

Time: 1.45 pm

Venue: COMMITTEE ROOMS - WEST WING, GUILDHALL

Members:
Deputy Robert Howard (Chairman)
Andrew McMurtrie (Deputy Chairman)
Deputy Ken Ayers
Nicholas Bensted-Smith
Roger Chadwick
Henry Colthurst
Simon Duckworth
Stuart Fraser
Tom Hoffman
Clare James
Deputy Henry Pollard
Ian Seaton
Philip Woodhouse

Enquiries: **Philippa Sewell**
tel. no.: 020 7332 1426
philippa.sewell@cityoflondon.gov.uk

Lunch will be served in the Guildhall Club at 1pm
NB: Part of this meeting could be the subject of audio video recording

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

3. **MINUTES OF THE PREVIOUS MEETING**
   To agree the public minutes and non-public summary of the meeting held on 3rd December 2014.

   For Decision
   (Pages 1 - 2)

4. **OUTSTANDING ACTIONS**
   Report of the Town Clerk.

   For Information
   (Pages 3 - 4)

5. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2015/16**
   Report of the Chamberlain.

   For Decision
   (Pages 5 - 30)

6. **MONTHLY INVESTMENT ANALYSIS REVIEW**
   Report of the Chamberlain.

   For Information
   (Pages 31 - 40)

7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

9. **EXCLUSION OF THE PUBLIC**
   MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

   For Decision

Part 2 - Non-Public Agenda

10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
    To agree the non-public minutes of the meeting held on 3rd December 2014.

    For Decision
    (Pages 41 - 44)

11. **SOUTHEASTERN**
Presentation from Southeastern.

For Information

12. **FINANCIAL INVESTMENT BOARD HANDBOOK**
Report of the Town Clerk.

For Information
(Pages 45 - 54)

13. **PRIVATE EQUITY PIPELINE UPDATE**
Report of Aon Hewitt.

For Information
(Pages 55 - 64)

14. **MULTI-ASSET POST TRANSITION REPORT**
Report of Aon Hewitt.

For Information
(Pages 65 - 68)

15. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

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FINANCIAL INVESTMENT BOARD

Wednesday, 3 December 2014

Minutes of the meeting of the Financial Investment Board held at Guildhall, EC2 on Wednesday, 3 December 2014 at 1.45 pm

Present

Members:
Deputy Robert Howard (Chairman)
Andrew McMurtrie (Deputy Chairman)
Nicholas Bensted-Smith
Deputy Ken Ayers
Ian Seaton
Philip Woodhouse

Officers:

Philippa Sewell	Town Clerk's Department
Caroline Al-Beyerty	Chamberlain's Department
Kate Limna	Chamberlain's Department
Emily McGuire	Aon Hewitt
Hans Holman	Aon Hewitt

1. **APOLOGIES**
   Apologies were received from Henry Colthurst, Stuart Fraser, Tom Hoffman, Clare James and Deputy Henry Pollard.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
   There were no declarations.

3. **MINUTES OF THE PREVIOUS MEETING**
   RESOLVED - That the public minutes and non-public summary of the meeting held on 6 November 2014 be agreed as a correct record.

4. **OUTSTANDING ACTIONS**
   RESOLVED – That the report be noted.

5. **MONTHLY INVESTMENT ANALYSIS REVIEW**
   The Board received the monthly review from October 2014, which detailed the list of current investments.

   RESOLVED – That the report be noted.

6. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
   There were no questions.

7. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There was no other business.

8. **EXCLUSION OF THE PUBLIC**
RESOLVED - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

Item No.	Paragraph(s) in Schedule 12A
9-14	3
15-16	-

9. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the non-public minutes of the meeting held on 6 November 2014 be agreed as a correct record.

10. **INVESTMENTS PERFORMANCE MONITORING TO 30 SEPTEMBER 2014**
The Board received a report of the Chamberlain.

11. **BENCHMARKING**
The Board considered a report of the Chamberlain.

12. **QUARTERLY INVESTMENT REPORT AS AT 30 SEPTEMBER 2014**
The Board received a report of Aon Hewitt.

13. **PRIVATE EQUITY PIPELINE AND MANAGER SELECTION**
The Board considered a report of Aon Hewitt.

14. **PROVISION OF INVESTMENT ADVICE TO THE BOARD**
The Board considered a report of the Chamberlain.

15. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no non-public questions.

16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was no other business.

The meeting ended at 4.01 pm

Chairman

Contact Officer: Philippa Sewell
tel. no.: 020 7332 1426
philippa.sewell@cityoflondon.gov.uk

Financial Investment Board – Outstanding Actions

Item	Date	Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
1.	18 Sep 2014	**Handbook**	Corporate Treasurer / Town Clerk	February 2015	On February agenda.
2.	6 Nov 2014	**Pension Fund** Officers to look at Pension Fund objective.	Corporate Treasurer / Chamberlain	Being discussed with Chairman.	Being discussed with Chairman.
3.	6 Nov 2014	**Review of Private Equity Investments**	Corporate Treasurer / Chamberlain	May 2015	On May agenda.
4.	3 Dec 2014	**Multi-Asset** Query over City's Cash and BHE (to be discussed in non-public session).	Corporate Treasurer / Chamberlain	February 2015	Corporate Treasurer to give verbal update at the meeting.

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Committee	Date:
Financial Investment Board	5 February 2015
Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2015/16	**Public**
Report of: The Chamberlain	**For Decision**

Summary

The attached document sets out the City's Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16. The document includes the various Prudential Indicators required to be set for the City Fund to ensure that the City's capital investment plans are affordable, prudent and sustainable. The main proposals within the document are incorporated within the separate report entitled "City Fund - 2015 Budget Report" being considered by the Finance Committee on 17 February 2015.

The key areas to highlight are:

- As at 31 December 2014, the City had cash balances totalling some £650m. This is higher than usual because of the proximity of a number of large capital payments. Some £150m is being held as part of the City's contribution to Crossrail in March 2016 and a further £34m is for known property purchases (section 3).
- Changes to credit methodology used by the main rating agencies (Fitch, Moody's and Standard & Poor's) including the removal of "uplifts" that came from sovereign support and selection of short and long term ratings (section 7.1).
- In assessing the creditworthiness of prospective counterparties the City uses a risk weighted scoring system rather than just using the lowest rating from the credit rating agencies (section 7.3) This is unchanged from previous years.
- It is proposed that the City continues to be prepared to lend monies for up to three years' duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. This policy differs from the policy of most other local authorities which tend to favour shorter investments. As the current returns on deposits for 2 and 3 years are considered insufficient, no new long term deposits have been made (sections 7.6 & 7.7).

The main changes to the document from last year's version are highlighted in yellow

Recommendation

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16, and submits it to the Court for formal adoption.

Appendices

Treasury Management Strategy Statement and Annual Investment Strategy 2015/16

Kate Limna
Corporate Treasurer
T: 020 7332 3952
E: kate.limna@cityoflondon.gov.uk

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2015/16

Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Strategy and Annual Investment Strategy 2015/16

1. Introduction

1.1 Background

The City of London Corporation (the City) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of capital expenditure plans. The City is not anticipating any borrowing at this time.

1.2 The Treasury Management Policy Statement

The City defines its treasury management activities as:

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

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.3 CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010:

The primary requirements of the Code are as follows:

(i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

(ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

(iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1.4 Treasury Management Strategy for 2015/16

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Court of Common Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included in section 7 of this report); this sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2015/16 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Capita Asset Services, Treasury Solutions.

The strategy covers:

- the current treasury position
- treasury indicators in force which will limit the treasury risk and activities of the City
- Treasury Indicators
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.5 Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the City to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the City for the foreseeable future.

2. Treasury Limits for 2015/16 to 2017/18

It is a statutory duty under Section 3 (1) of the Local Government Finance Act and supporting regulations, for the City to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The City must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 3.

3. Current Portfolio Position

The City's treasury portfolio position at 31 December 2014 comprised:

Table 1		**Principal**		**Ave. rate**
		£m	**£m**	**%**
Fixed rate funding	PWLB	0		
	Market	0	0	-
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
Gross debt			**0**	**-**
Total investments			**650.2**	**0.87**
Net Investments			**650.2**	

4. Treasury Indicators for 2015/16 – 2017/18

Treasury Indicators (as set out in Appendix 3) are relevant for the purposes of setting an integrated treasury management strategy.

The City is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted by the Court of Common Council on 9 March 2004 and the revised 2009 Code was adopted on 3 March 2010.

5. Prospects for Interest Rates

The City of London has appointed Capita Asset Services (Capita) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates and Appendix 2 provides a more deatiled economic commentary. The following table gives the Capita central view.

Annual Average %	**Bank Rate %**	**PWLB Borrowing Rates % (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 appears to have brought to power a political party which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2015/16.

7. Annual Investment Strategy

7.1 Introduction: Changes to Credit Rating Methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that Capita have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, they will continue to utilise CDS prices as an overlay to ratings in their new methodology

7.2 Investment Policy

The City of London's investment policy will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA TM Code"). The City's investment priorities are:

(a) the security of capital and

(b) the liquidity of its investments.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the CLG Government and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the City will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendices 4 and 5 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits are also set out in these appendices.

7.3 Creditworthiness policy

The City uses the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor’s. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

The City will not specifically follow the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties but will have regard to the approach adopted by Capita’s creditworthiness service which incorporates ratings from all three agencies and uses a risk weighted scoring system, thereby not giving undue preponderance to just one agency’s ratings.

All credit ratings will be monitored on a daily basis**.** The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the City’s minimum criteria, its further use as a possible investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the City will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution and possible removal from the City lending list.

Sole reliance will not be placed on the use of this external service. In addition the City will also use market data and market information, information on sovereign support for banks and the credit ratings of that government support. Regular meetings are held involving the Chamberlain, Financial Services Director, Corporate Treasurer and Members of the Treasury Team, when the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

The primary principle governing the City's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City's prudential indicators covering the maximum principal sums invested.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Financial Investment Board as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:

  (i) are UK banks; and/or
  (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AAA (Fitch rating) and have, as a minimum the following Fitch credit rating:

(i) Short-term	F1
(ii) Long-term	A

- Banks 2 – Part Nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised, or they meet the ratings in Banks 1 above.

- Banks 3 – The City's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.

- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.

- Building Societies – The City may use all societies which:
  (i) have assets in excess of £9bn; or
  (ii) meet the ratings for banks outlined above

- Money Market Funds – with minimum credit ratings of AAA/mmf

- UK Government – including government gilts and the debt management agency deposit facility.

- Local authorities.

A limit of £200m will be applied to the use of non-specified investments.

7.4 Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA or equivalent from all three rating agencies. . The counterparty list, as shown in Appendix 6, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. It is proposed that the UK will be excluded from this stipulated minimum sovereign rating requirement.

7.5 Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The City does not currently have any term deposits which span the 2015/16 financial year.

7.6 Investment returns expectations: The Bank Rate has been unchanged from 0.50% since March 2009. Bank Rate is forecast by Capita Asset Services to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are as follows:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

Capita considers that there are there are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The Chamberlain and his Treasury Officers consider there to be a likelihood of interest rates remaining at very low levels for some considerable time, and in view of the importance of interest earnings included in forward financial forecasts, opportunities have been taken in the past to lock-in some of the 'core balances' cash holdings to 2 and 3 year deals when attractive interest rates have been available, having regard however to the alternative investment opportunities already agreed. The current returns on deposits for these lending periods is considered insufficient and so no new 2 or 3 year deposits have been placed.

For 2014/15 the City has budgeted for an average investment return of 0.75% on investments placed during the financial year and previously. Financial forecasts for the period 2015/16 to 2017/18 include interest earnings based on an average investment return of 0.50%.

For its cash flow generated balances, the City will seek to utilise its business reserve accounts, money market funds, and short-dated deposits (overnight to twelve months) in order to benefit from the compounding of interest until increases in the base rate are sufficient to led funds for longer periods.

7.7 Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end.

The Board is asked to approve the treasury indicator and limit:

Maximum principal sums invested for more than 364 days (upto three years)

£M	**2015/16 (£M)**	**2016/17 (£M)**	**2017/18 (£M)**
Principal sums invested >364 days	200	200	200

It should be emphasised that the City is prepared to lend monies out for periods of up to three years which is longer than most other local authorities which tend to opt for shorter durations.

7.8 End of year investment report

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

7.9 External fund managers

A proportion of the City’s funds, amounting to £160.8m as at 31 December 2014, are externally managed on a discretionary basis by Ignis Asset Management, Invesco, Prime Rate, CCLA Liquidity Fund and Payden Global Funds Plc. The City’s external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk. Investments made by the Money Market Fund Managers include a diversified portfolio of very high quality sterling-dominated investments, including gilts, supranationals, bank and corporate bonds, as well as other money market securities. The individual investments held within the Money Market Funds are monitored on a regular basis by Treasury staff.

The credit criteria to be used for the selection of the cash fund manager(s) are based on Fitch Ratings and is AAA/mmf. The Payden Sterling Reserve Fund is rated by Standard and Poor’s at AAA/f.

7.10 Policy on the use of external service providers

The City uses Capita Asset Services, Treasury Solutions as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The City will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

7.11 Scheme of delegation

Please see Appendix 7.

7.12 Role of the Section 151 officer

Please see Appendix 8.

APPENDICES

1. Interest Rate Forecasts 2015-2018
2. Economic Background (Capita Asset Services)
3. Treasury Indicators
4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
5. Current Approved Counterparties
6. Approved Countries for Investments
7. Treasury Management Scheme of Delegation
8. The Treasury Management Role of the Section 151 Officer

APPENDIX 1: Interest Rates Forecasts 2015-2018

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

APPENDIX 2: Economic Background

THE UK ECONOMY

UK. After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

Eurozone (EZ). The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth.

In addition to the circa €10bn of monthly bond purchases already carried out, the ECB announced in January that it would begin purchasing a further €50bn of bonds per month to bring its monthly asset purchases to €60bn. Although markets had been pricing in quantitative easing for quite some time, Draghi’s announcement was at the top end of the range of market forecasts. The quantitative easing programme will begin in March 2015 and is expected to conclude in September 2016. However, should the need occur the programme will continue until inflationary targets of close to 2% are met over the medium term. This caveat leaves the ECB with the flexibility to continue with quantitative easing past September 2016 if it finds it necessary

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB’s pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios

(2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

Greece: the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA. The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

China. Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehman's crisis.

Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX 3 - Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2013/14	2014/15	2015/16	2016/17	2017/18
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£0	£0	£0	£0	£0
Operational Boundary for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£0	£0	£0	£0	£0
Actual external debt	£0	£0	£0	£0	£0
Upper limit for fixed interest rate exposure					
expressed as either:-					
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
expressed as either:-					
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£300m	£200m	£200m	£200m	£200m
(per maturity date)					

TABLE 2: Maturity structure of fixed rate borrowing during 2013/14	upper limit	lower limit
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

APPENDIX 4 – Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management, Specified and Non-Specified Investments and Limits

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where appropriate.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £200m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	Fund Managers
Money Market Funds	AAA/mmf	In-house & Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	Fund Managers
Sovereign Bond issues (other than the UK government)	AAA	Fund Managers

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment Criteria with maturities in excess of 1 year. A maximum of £200m will be held in aggregate in non-specified investments.

	*** Minimum Credit Criteria**	**Use**	**Maximum**	**Maximum Maturity Period**
Term deposits - other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits - banks and building societies (with maturities in excess of one year)	Long-term A, Short-term F1,	In-house and Fund Managers	£200m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AAA	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years

APPENDIX 5 – Approved Counterparties

BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS	BANK CODE	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA - F1 +	40.53.71	HSBC	Up to 3 years
A F1	20.00.00 20.00.52	BARCLAYS CAPITAL BARCLAYS BANK	Up to 3 years
A F1	30.15.57	LLOYDS TSB BANK incl. Bank of Scotland	Up to 3 years
A F1	16.75.75	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A F1	Nationwide	189	120	Up to 3 years
A – F1	Yorkshire	34	20	Upto 1 year
A F1	Coventry	28	20	Upto 1 year
BBB – F2	Skipton	14	20	Upto 1 year
A – F1	Leeds	11	20	Upto 1 year

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Overall Limit £250m	DURATION
AAA/mmf	Goldman Sacs Sterling Liquidity Reserve Fund	Liquid
AAA/mmf	CCLA	Liquid
AAA/mmf	Prime Rate Liquidity Fund	Liquid
AAA/mmf	Ignis Asset Management Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA / f	Payden Sterling Reserve Fund	Liquid

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS	BANK CODE		LIMIT £M	Duration
		AUSTRALIA		
AA- F1+	20.32.53	AUSTRALIA & NZ BANKING GROUP	25	Up to 3 years
AA- F1+	16.55.90	NATIONAL AUSTRALIA BANK	25	Up to 3 years
		SWEDEN		
AA- F1+	40.51.62	SVENSKA HANDELSBANKEN	25	Up to 3 years

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPENDIX 6 - Approved Countries for Investments – Based on ratings of the three rating agencies

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- United Kingdom

APPENDIX 7 – Treasury Management Scheme of Delegation

The roles of the various bodies of the City of London Corporation with regard to treasury management are:

(i) Court of Common Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Financial Investment Board and Finance Committee

- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit & Risk Management Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Working closely with and considering recommendations of the Section 151 officer on the compliance with legal statute and statements of recommended practice.

APPENDIX 8 - The Treasury Management Role of the Section 151 Officer

The Chamberlain

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

CAPITA
Treasury solutions

Asset Services

City Of London Corporation

Monthly Investment Analysis Review

December 2014

Monthly Economic Summary

General Economy

Although December 2014 was a busy month, it was oil prices plummeting to a 5 year low, putting stress on energy exporting nations, that was most influential. The end of November saw shoppers rushing to the high street and online to make the most of the US styled Black Friday and Cyber Monday sales, pushing retail sales growth to a 10 year high. In addition, The Prudential Regulatory Authority (PRA) released the results of its stress tests of eight UK banks, with only the Co-operative Bank failing.

Growth in Manufacturing output fell to 0.7%, its biggest monthly decline since May. This was hit by a 4.5% fall in computer, electronic and optical products. Manufacturing Purchasing Managers' Index (PMI) rose marginally to 53.5 from 53.3 in October due to growth in new orders helping to push employment in the sector up to a four month high. The Construction PMI fell to 59.4 from 61.4, the weakest reading since October 2013. However, Britain's services sector expanded faster than expected last month, suggesting the economy may be slowing less than previously thought. The Services PMI rose to 58.6 after falling sharply to 56.2 in October, beating all market expectations. This rise in the index was the biggest in over a year and it has exceeded the 50 level that represents growth for nearly two years. The data showed that falling oil prices, which hit a five-year low, were helping firms to offset the effect of staff costs as hiring increased at its fastest rate since July.

Inflation fell for a third consecutive month to 1% in December, the lowest level seen in 12 years. This is partly due to the strength of sterling, which has helped by cutting the price of imports, as well as downward pressure from food and oil prices.

In the Autumn Statement, Chancellor George Osborne abolished the residential slab system so in future the stamp duty rates will only apply to the part of the property price that falls within their respective bands. As a result, stamp duty will be cut for the 98% of homebuyers who pay it. Multinational firms and banks will be taxed 25% on profits generated from economic activity in the UK which gets shifted out of the country.

The PRA tested the balance sheets of eight major UK Banks to see how they would fair against another economic down turn. The results of the test came as no surprise with the Co-operative Bank being the only bank to fail to meet the required capital ratio. The part-nationalised banks Lloyds and RBS only narrowly managed to pass but they are still too vulnerable for comfort. The European Banking Association also released stress test results in December with all four UK banks passing.

UK GDP in year on year terms was revised down to 2.6% for the third quarter, down from 3.0% in a previous estimate. However, the economy is showing positive signs with supermarket competition and cheap fuel prices, encouraging consumer spending. This is also supported by unemployment remaining stable at 6% and wages outstripping inflation, showing that Britain's economy still looks on course to expand at a strong pace in 2015.

Britain's goods trade deficit narrowed in October to its lowest level in seven months. The overall trade deficit narrowed to £2.02bn in October, down nearly £800m and hitting its lowest level since March. This was due to lower fuel imports and a slight rise in exports.

The UK saw US styled "Black Friday" discounts causing record sales growth as retail sales grew at their fastest annual rate in more than a decade in November. Retail sales grew 6.4% on the year which is the fastest annual growth since May 2004. This is due to downward pressure from falling food and oil prices and rising wages, which has resulted in consumers having more money to spend. The GfK consumer confidence index, however, edged down in December to its lowest level since March, as optimism about the economy hit a 17-month low.

The US economy grew to 5.0% annually, revised up from an original estimate of 3.9%, the fastest pace of growth since the third quarter of 2003. With a rapidly strengthening labour market and lower oil prices, there should be enough momentum to keep the Federal Reserve on course to start raising interest rates by the middle of 2015. Furthermore US employers added the largest number of workers in nearly three years with Nonfarm Payrolls rising by 321,000 last month. The unemployment rate remained at a six-year low, at 5.8%. This confirms that the economy is coping well despite slowdowns in China, the Eurozone and a recession in Japan.

Housing Market

Mortgage lender Nationwide reported that British house prices eased for a fourth consecutive month in December, slowing to 0.2% from 0.3%. Year on year house prices rose by 7.2% in December.

Forecast

Capita Asset Services kept its Bank Rate forecast unchanged this month, expecting the first increase in Q2 2015. Capital Economics did not alter their forecast this month

Bank Rate	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

City Of London Corporation

Current Investment List

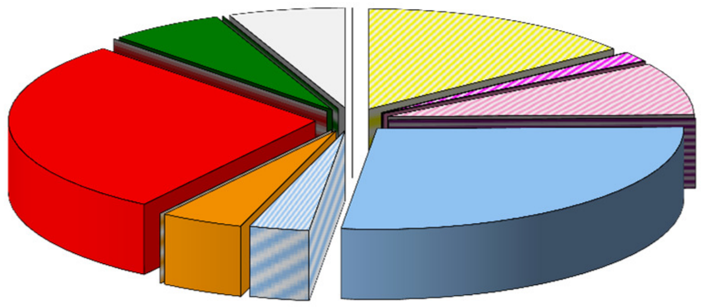
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Ignis	44,900,000	0.48%		MMF	AAA	0.000%
EMMF IGNIS Short Duration Cash Fund	5,000,000	0.92%		EMMF	AAA	0.000%
MMF Federated Investors (UK)	40,000,000	0.44%		MMF	AAA	0.000%
EMMF Prime Rate Cash Plus Fund	5,000,000	0.67%		EMMF	AAA	0.000%
MMF Invesco	900,000	0.38%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.36%		MMF	AAA	0.000%
EMMF Payden Sterling Reserve Fund	55,000,000	1.01%		EMMF	AAA	0.000%
Lloyds Bank Plc	20,500,000	0.50%		Call	A	0.000%
Leeds Building Society	5,000,000	0.49%	16/09/2014	02/01/2015	A-	0.000%
The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
The Royal Bank of Scotland Plc	12,100,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
Nationwide Building Society	8,500,000	0.49%	26/09/2014	05/01/2015	A	0.001%
Lloyds Bank Plc	10,000,000	0.57%	01/10/2014	05/01/2015	A	0.001%
Coventry Building Society	8,000,000	0.49%	30/09/2014	06/01/2015	A-	0.001%
National Australia Bank Ltd	5,000,000	0.43%	01/10/2014	06/01/2015	AA-	0.000%
Lloyds Bank Plc	2,200,000	0.57%	07/10/2014	07/01/2015	A	0.002%
Nationwide Building Society	5,000,000	0.51%	01/10/2014	07/01/2015	A	0.002%
Lloyds Bank Plc	2,300,000	0.57%	09/10/2014	09/01/2015	A	0.002%
The Royal Bank of Scotland Plc	2,500,000	0.57%	13/10/2014	13/01/2015	BBB+	0.007%
Nationwide Building Society	8,500,000	0.50%	15/10/2014	15/01/2015	A	0.004%
Yorkshire Building Society	3,100,000	0.50%	27/10/2014	27/01/2015	BBB+	0.015%
Yorkshire Building Society	2,800,000	0.50%	28/10/2014	28/01/2015	BBB+	0.015%
The Royal Bank of Scotland Plc	25,000,000	0.50%	15/10/2014	30/01/2015	BBB+	0.016%
Nationwide Building Society	5,200,000	0.50%	27/10/2014	30/01/2015	A	0.007%
Yorkshire Building Society	6,700,000	0.50%	03/11/2014	03/02/2015	BBB+	0.019%
Nationwide Building Society	6,200,000	0.50%	03/11/2014	04/02/2015	A	0.008%
Nationwide Building Society	4,400,000	0.50%	10/11/2014	10/02/2015	A	0.010%
Lloyds Bank Plc	3,000,000	0.57%	10/11/2014	10/02/2015	A	0.010%
Lloyds Bank Plc	2,700,000	0.57%	13/11/2014	13/02/2015	A	0.010%
Lloyds Bank Plc	1,200,000	0.57%	20/11/2014	20/02/2015	A	0.012%
Nationwide Building Society	10,000,000	0.51%	25/11/2014	24/02/2015	A	0.013%
Coventry Building Society	2,300,000	0.45%	25/11/2014	25/02/2015	A-	0.013%
Nationwide Building Society	5,000,000	0.50%	25/11/2014	26/02/2015	A	0.014%
Yorkshire Building Society	2,800,000	0.50%	26/11/2014	27/02/2015	BBB+	0.032%
Nationwide Building Society	3,800,000	0.50%	28/11/2014	02/03/2015	A	0.014%
Svenska Handelsbanken AB	5,000,000	0.49%	01/12/2014	03/03/2015	AA-	0.003%
Nationwide Building Society	6,600,000	0.51%	03/12/2014	03/03/2015	A	0.015%

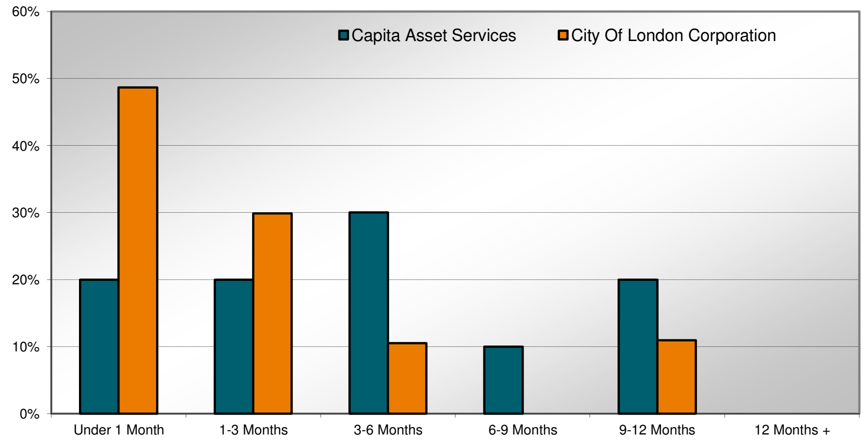
City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Nationwide Building Society	10,000,000	0.51%	01/12/2014	04/03/2015	A	0.015%
Yorkshire Building Society	2,200,000	0.47%	04/12/2014	04/03/2015	BBB+	0.035%
Nationwide Building Society	13,000,000	0.51%	01/12/2014	05/03/2015	A	0.015%
Lloyds Bank Plc	10,000,000	0.57%	01/12/2014	06/03/2015	A	0.015%
Coventry Building Society	5,000,000	0.46%	10/12/2014	10/03/2015	A-	0.016%
Lloyds Bank Plc	5,000,000	0.57%	11/12/2014	11/03/2015	A	0.017%
Nationwide Building Society	5,400,000	0.50%	15/12/2014	16/03/2015	A	0.018%
Yorkshire Building Society	2,400,000	0.47%	16/12/2014	16/03/2015	BBB+	0.041%
Nationwide Building Society	2,900,000	0.50%	16/12/2014	17/03/2015	A	0.018%
National Australia Bank Ltd	7,000,000	0.43%	17/12/2014	17/03/2015	AA-	0.003%
Nationwide Building Society	5,000,000	0.50%	17/12/2014	17/03/2015	A	0.018%
Leeds Building Society	4,200,000	0.47%	08/12/2014	18/03/2015	A-	0.018%
Leeds Building Society	10,000,000	0.48%	08/12/2014	19/03/2015	A-	0.019%
Nationwide Building Society	6,400,000	0.50%	23/12/2014	23/03/2015	A	0.019%
Lloyds Bank Plc	5,000,000	0.95%	27/03/2014	27/03/2015	A	0.020%
Lloyds Bank Plc	2,200,000	0.95%	28/03/2014	30/03/2015	A	0.021%
Coventry Building Society	4,700,000	0.45%	29/12/2014	30/03/2015	A-	0.021%
Nationwide Building Society	5,200,000	0.50%	29/12/2014	30/03/2015	A	0.021%
Nationwide Building Society	8,900,000	0.51%	31/12/2014	31/03/2015	A	0.021%
Lloyds Bank Plc	10,000,000	0.95%	01/04/2014	01/04/2015	A	0.022%
Barclays Bank Plc	10,000,000	0.90%	01/04/2014	02/04/2015	A	0.022%
Barclays Bank Plc	5,000,000	0.85%	07/04/2014	07/04/2015	A	0.023%
Barclays Bank Plc	10,800,000	0.92%	26/03/2014	10/04/2015	A	0.024%
National Australia Bank Ltd	11,500,000	0.45%	30/12/2014	13/04/2015	AA-	0.005%
Skipton Building Society	20,000,000	0.95%	22/04/2014	22/04/2015	BBB-	0.062%
Lloyds Bank Plc	5,000,000	0.95%	07/05/2014	07/05/2015	A	0.030%
Lloyds Bank Plc	16,000,000	0.93%	07/05/2014	07/05/2015	A	0.030%
Barclays Bank Plc	39,000,000	1.00%	27/11/2014	27/11/2015	A	0.079%
Lloyds Bank Plc	32,200,000	1.00%	22/12/2014	22/12/2015	A	0.085%
Total Investments	**£650,200,000**	**0.87%**				0.019%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





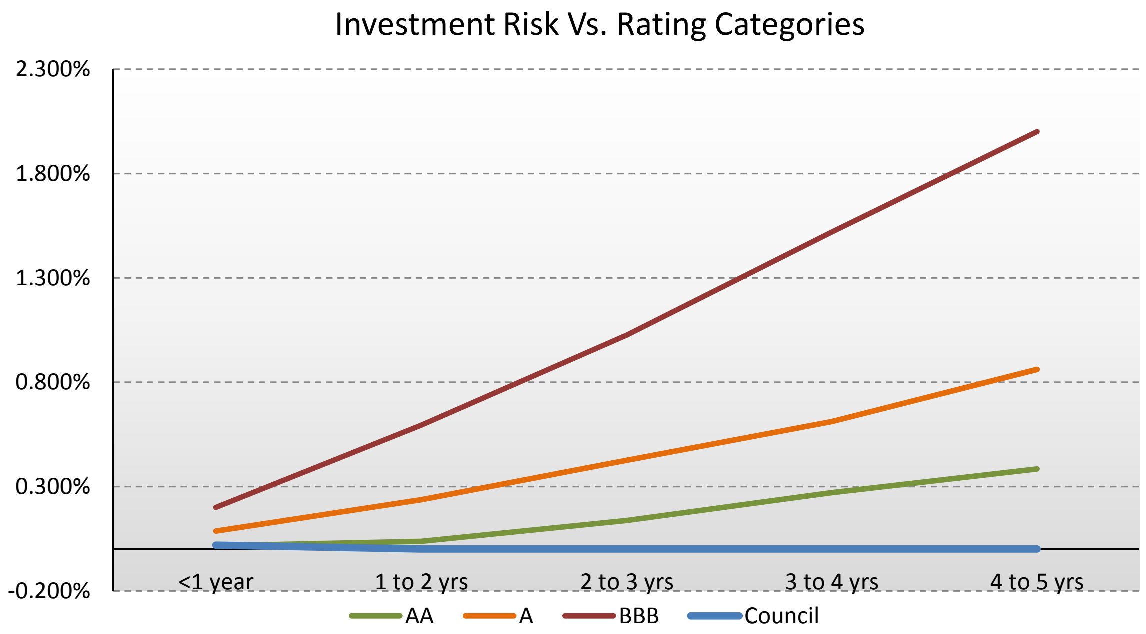
Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

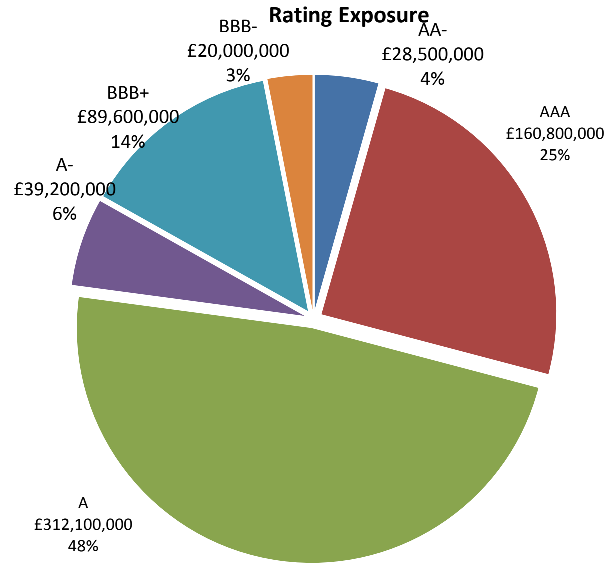
Portfolios weighted average risk number = 3.59

WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs WAM	Excluding Calls/MMFs/EMMFs WAM at Execution
Yellow	14.73%	£95,800,000	100.00%	£95,800,000	14.73%	0.45%	0	0	0	0
Pink1	1.54%	£10,000,000	100.00%	£10,000,000	1.54%	0.80%	0	0	0	0
Pink2	8.46%	£55,000,000	100.00%	£55,000,000	8.46%	1.01%	0	108	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	30.28%	£196,900,000	10.41%	£20,500,000	3.15%	1.42%	92	397	102	444
Orange	4.38%	£28,500,000	0.00%	£0	0.00%	0.45%	72	97	72	97
Red	28.42%	£184,800,000	0.00%	£0	0.00%	0.66%	118	189	118	189
Green	6.03%	£39,200,000	0.00%	£0	0.00%	0.47%	52	98	52	98
No Colour	6.15%	£40,000,000	0.00%	£0	0.00%	0.72%	78	228	78	228
	100.00%	**£650,200,000**	**27.88%**	**£181,300,000**	**27.88%**	**0.87%**	**73**	**207**	**103**	**275**

Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
Council	0.019%	0.000%	0.000%	0.000%	0.000%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for “AA”, “A” and “BBB” rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
15/12/2014	1316	France Sovereign Rating	France	Downgraded to 'AA' from 'AA+', removed from 'Negative Watch' and placed on a 'Stable' Outlook.

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1313	Sumitomo Mitsui Banking Corporation Europe Ltd	UK	Moody's downgraded the Long Term Rating to 'A1' from 'Aa3', placed on a Stable Outlook. Affirmed Short Term Rating at 'P-1'. The Financial Strength Rating remained at 'C' with a Stable Outlook.
19/12/2014	1318	HSBC Bank USA, N.A.	U.S.A	Affirmed Long Term Rating at ‘A1’, 'Stable' Outlook. Affirmed Short Term Rating at ‘P-1’. Affirmed Financial Strength Rating at ‘C-’, Outlook changed to 'Stable' from 'Negative'.
19/12/2014	1319	ING Bank NV	Netherlands	Affirmed Long Term Rating at ‘A2’, 'Negative' Outlook. Affirmed Short Term Rating at ‘P-1’. Affirmed Financial Strength Rating at ‘C-‘, Outlook changed to 'Stable' from 'Negative'.

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1314	Bank of America, N.A.	U.S.A	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
02/12/2014	1314	Merrill Lynch International	UK	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
05/12/2014	1315	Saudi Arabia Sovereign Rating	Saudi Arabia	Affirmed at 'AA-', Outlook changed to 'Stable' from 'Positive'.
17/12/2014	1317	Arab National Bank	Saudi Arabia	Affirmed at 'A', Outlook changed to 'Stable' from 'Positive', Short Term Rating Affirmed at 'A-1'.

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