



Financial Investment Board

Date: THURSDAY, 27 OCTOBER 2016
Time: 1.45 pm
Venue: COMMITTEE ROOMS - WEST WING, GUILDHALL

Members: Andrew McMurtrie (Chairman)
Nicholas Bensted-Smith (Deputy Chairman)
Deputy Roger Chadwick
Henry Colthurst
Simon Duckworth
Alderman Peter Hewitt
Tom Hoffman
Alderman Robert Howard
Edward Lord
Clare James
Deputy Henry Pollard
James de Sausmarez
Ian Seaton
Philip Woodhouse

Enquiries: Philippa Sewell
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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 or 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 6 September 2016.
For Decision
(Pages 1 - 4)
4. **OUTSTANDING ACTIONS**
Report of the Town Clerk.
For Information
(Pages 5 - 6)
5. **MONTHLY INVESTMENT ANALYSIS REVIEW**
Report of the Chamberlain.
For Information
(Pages 7 - 18)
6. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
7. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
8. **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.

Part 2 - Non-Public Agenda

9. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the non-public minutes of the meeting held on 6 September 2016.
For Decision
(Pages 19 - 20)
10. **NON-PUBLIC OUTSTANDING ACTIONS**
Report of the Town Clerk.
For Information
(Pages 21 - 22)
11. **PRESENTATION FROM WELLINGTON MANAGEMENT**
For Information
12. **PRESENTATION FROM IFM INVESTORS**
For Information

13. **PROPERTY INVESTMENT OPTIONS**

Report of the Chamberlain.

For Information

(Pages 23 - 40)

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

15. **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

Tuesday, 6 September 2016

Minutes of the meeting of the Financial Investment Board held at the Guildhall EC2 at 1.45 pm

Present

Members:

Nicholas Bensted-Smith (Deputy
Chairman)
Henry Colthurst
Tom Hoffman

James de Sausmarez
Ian Seaton
Philip Woodhouse

Officers:

Philippa Sewell	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Catrina Arbuckle	-	Mercer
Kate Brett	-	Mercer
Femida Khankhara	-	BlackRock

1. APOLOGIES

Apologies were received from the Chairman Andrew McMurtrie, Alderman Robert Howard, Roger Chadwick, Clare James, Edward Lord, and Deputy Henry Pollard.

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

Philip Woodhouse and Tom Hoffman declared non-pecuniary interests in Ruffer.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED - That the public minutes and non-public summary of the meeting held on 30 June 2016 be agreed as a correct record.

4. OUTSTANDING ACTIONS

The Board received and discussed the list of Outstanding Actions, noting progress made and revised timescales. With regard to Brexit, Members agreed to carry this forward to the next meeting but that a regular update was not necessary.

RESOLVED – That the report be noted.

5. RISK REGISTER FOR BRIDGE HOUSE ESTATES

The Board considered a report of the Chamberlain regarding key risks for Bridge House Estates. There were two risks identified as relating to the

services overseen by the Financial Investment Board, which Members proceeded to review. In response to Members' queries, officers advised they would be reviewing alternatives for investing cash reserves in the autumn. Officers further undertook to amend the first risk to highlight that whilst the Board can monitor the performance of the fund managers, the volatility of financial markets cannot necessarily be mitigated by the Board.

RESOLVED – That:

- a) it be confirmed that appropriate control measures are in place for the two risks currently on the register for the Financial Investment Board, relating to a potential reduction in income from non-property investments and cash balances; and
- b) it be confirmed that there are no other risks relating to the services overseen by the Financial Investment Board which should be added to the Bridge House Estates risk register.

6. MONTHLY INVESTMENT ANALYSIS

The Board received the monthly review for July 2016, which detailed the list of current investments. Members noted that interest rates were being cut, but rates in excess of 0.25% were still being achieved and the investment strategy could be reviewed if necessary.

RESOLVED – That the report be noted.

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

There were no questions.

8. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT

There was no other business.

9. 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
10-15	3
16-17	-

10. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING

RESOLVED – That, subject to one clarification, the non-public minutes of the meeting held on 30 June 2016 be agreed as a correct record.

11. UK EQUITY TRANSITION: POST TRADE ANALYSIS

The Board received a report of BlackRock.

12. TRANSITION REVIEW

The Board received a report of Aon Hewitt.

13. RESPONSIBLE INVESTMENT

The Board received a report and presentation from Mercer.

14. INVESTMENT PERFORMANCE MONITORING TO 30 JUNE 2016

The Board received a report of the Chamberlain regarding investment performance.

15. QUARTERLY MONITORING REPORT

The Board received a report of Mercer regarding investment performance.

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

There were no non-public questions.

17. 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 closed at 3.08 pm

Chairman

**Contact Officer: Philippa Sewell
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philippa.sewell@cityoflondon.gov.uk**

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Financial Investment Board – Outstanding Actions

Item	Date	Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
1.	2 July 2015	Hampstead Heath objectives	Corporate Treasurer / Chamberlain	February Board meeting	Officers at Hampstead Heath be contacted for their views after accounts are signed off in November.
2.	2 July 2015	Charities Pool objectives and allocations	Corporate Treasurer / Chamberlain	February Board meeting	Survey to be sent with accounts.
3.	9 Sep 2015	Review of Fees	Corporate Treasurer / Chamberlain	February/May Board meeting	Postponed until new Fund Managers are in place. This will also be the criteria for pooling the LPGS investments, and will include information on 'hidden' costs.
4.	30 Jun 2016	Brexit – consider the City's position since previous meeting	N/A	October Board meeting	For Members' discussion.
5.	30 Jun 2016	Charities Pool	Corporate Treasurer / Chamberlain	January/March	Presentation to be arranged for investors after accounts are signed off in November.

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City Of London Corporation

Monthly Investment Analysis Review

September 2016



General Economy

This month there was still a focus on the UK's decision to leave the European Union. The hard data released however, was more positive than many expected. Nevertheless, the path to Brexit is a long one and while the initial impact may be less than feared, it does not mean that issues will not materialise over the medium term. Furthermore, the active stance taken by the Monetary Policy Committee last month, including cutting interest rates to 0.25%, will also have likely supported the recent rebound in activity.

A boost to exports and more than a 10% fall in the value of the pound helped the PMI manufacturing activity survey recover from initial Brexit impacts and rise to a 10 month high. In August activity in the sector jumped to 53.3, from 48.2 in July. Export orders flowed at their fastest rate for two years whilst factories increased output by the highest amount since January. Construction activity also recovered in August, with the PMI headline reading rising to 49.2 from 45.9 in July, suggesting the economy is stabilising post the referendum vote. However, activity in the sector still remains slightly below 50, the level that divides "expansion" from "contraction". Economists now fear the construction industry will face further issues in the face of strong inflation pressures with raw material prices rising by their fastest pace in five years. Completing the set, service sector activity had the biggest one month gain in the PMI survey's history as it soared to 52.9 in August from 47.4 in July. This boosted the composite PMI activity reading to a five month high of 53.2. If the uplift in sentiment transfers to "hard" economic output data then it would suggest that an imminent recession will be avoided and puts the possibility of a second rate cut before the end of the year more in the balance.

The Bank of England met in September and voted unanimously to keep interest rates at a record low of 0.25% whilst also leaving the bond buying schemes unchanged. Furthermore, they improved their Q3 growth forecast, predicting that growth will be closer to 0.3% as opposed the 0.1% they originally forecast. Nevertheless, the Bank said they are still likely to cut interest rates again this year with a further cut of 0.1basis points expected when they next meet in November.

British inflation held firm remaining at an annual rate of 0.6% in August, slightly below the 0.7% forecast. Clothing and hotels had lower prices, counteracting the price rise in fuel prices, food and airfares. In terms of growth, the service sector exceeded initial estimates in Q2 and this resulted in final UK Q2 GDP growth being revised to 0.7% from 0.6%.

In the three months to August employment rose by 174,000 showing there has not yet been any post Brexit shedding. Unemployment is still expected to rise, however, as companies wait for greater clarity on the UK's exit deal from the European Union. Growth in workers' wages slowed in August, signalling a tough period ahead as British households are likely to face higher inflation as a result of the weaker pound.

UK Public Sector Net Borrowing for August registered a deficit of £10.55bn, but lower than the £11.47bn figure recorded for the same period last year. However, it failed to meet the forecast of just £10bn. The Office for National Statistics stated there was little impact from the Brexit vote as Income and Corporation Tax receipts rose strongly.

Retail sales calmed in August, falling -0.2% after strong growth in July of 1.9%. Despite the slight fall there is still a pattern of strong growth in the sector on an annual basis as sales volumes are up 6.2% compared with last year and higher than the forecast of 5.4%. John Lewis has mentioned they have noticed little impact of the Brexit vote, but they suggested that the full impact has not yet become clear.

Adding to the positive tone to data releases was figures for UK's trade balance in July. The deficit in the UK's goods balance improved to -£11.764bn in July from a revised -£12.920 in June. Conversely, the services balance fell slightly to £7.262bn in July from £7.347bn in June.

Q2 GDP growth was also published for the Eurozone this month. GDP was up 0.3% in the euro area and by 0.4% in the EU28, with annual growth rates of 1.6% and 1.8% respectively. Exports were a leading factor in this growth, increasing by 1.1% in both areas. At the individual level, Germany grew at 1.7% and France at 1.4% but Romania (5.9%) and Slovakia (3.7%) published the highest growth rates. With regards employment across the region, the unemployment rate remained at its lowest level since July 2011 at 10.1%, down from 10.7% in August a year ago. The EU 28 also remained stable at 8.6%, down from 9.3% in August 2015. The lowest unemployment rates were recorded in the Czech Republic (3.9%) and Germany (4.2%), whilst Spain remained as one of the highest, at 19.5%.

Across the Atlantic, non-farm payrolls improved by 151,000 in August, with the unemployment rate holding steady at 4.9%. This was less than the expected rise of 180,000 and a slowdown from the previous two months which had a combined rise of 546,000. Average hourly earnings only increased by a 0.1% and Americans worked fewer hours last month with average weekly hours dipping to 34.3. These figures have reignited the debate as to whether another interest rate hike before the end of the year will benefit the US economy. The final Q2 estimate for US GDP was upwardly revised this month, increasing from initial estimates of 1.1% to a 1.4% annualised growth rate. This rise was due to business' pumping more money into research and development and exports growing strongly.

Housing

Halifax house prices fell a further 0.2% in August, after falling 1.1% in July. The second consecutive month of falling house prices has caused the annual growth rate to decline to 6.9%, its lowest level in more than a year. This slowdown is supported by the British Bankers Association survey. According to the survey the number of mortgages approved fell to 36,997 in August, its lowest point since January 2015 and 21% lower than this time last year. Nationwide House prices reflect this slowdown has continued into September. While prices rose by 0.3% on the month, this was below that seen in August (0.6%) and pulled the annual rate down to 5.3% from 5.6% previously.

Forecast

Neither Capita Asset Services (CAS) nor Capital Economics altered their forecasts this month. It is mutually anticipated that another rate cut will occur in the last quarter of this year with CAS forecasting a potential hike occurring in the second quarter of 2018.

Bank Rate	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Capita Asset Services	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen	73,000,000	0.47%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.30%		MMF	AAA	0.000%
MMF Federated Investors (UK)	83,900,000	0.35%		MMF	AAA	0.000%
ECF Federated Sterling Cash Plus Fund	5,000,000	0.66%		ECF	AAA	0.000%
MMF Invesco	81,400,000	0.40%		MMF	AAA	0.000%
ECF Payden Sterling Reserve Fund	55,000,000	1.18%		ECF	AAA	0.000%
MMF Standard Life	84,300,000	0.36%		MMF	AAA	0.000%
ECF Standard Life Short Duration Cash Fund	5,000,000	0.80%		ECF	AAA	0.000%
Lloyds Bank Plc	49,700,000	0.50%		Call	A	0.000%
National Australia Bank Ltd	14,100,000	0.60%	01/04/2016	03/10/2016	AA-	0.000%
Australia and New Zealand Banking Group Ltd	5,000,000	0.52%	30/06/2016	03/10/2016	AA-	0.000%
Coventry Building Society	6,800,000	0.61%	01/04/2016	04/10/2016	A	0.001%
Coventry Building Society	5,300,000	0.61%	05/04/2016	05/10/2016	A	0.001%
Nationwide Building Society	5,300,000	0.48%	01/07/2016	06/10/2016	A	0.001%
Nationwide Building Society	10,200,000	0.49%	01/07/2016	07/10/2016	A	0.001%
Lloyds Bank Plc	8,400,000	0.65%	07/07/2016	07/10/2016	A	0.001%
Australia and New Zealand Banking Group Ltd	13,000,000	0.52%	04/07/2016	11/10/2016	AA-	0.000%
Svenska Handelsbanken AB	18,600,000	0.47%	11/07/2016	12/10/2016	AA-	0.000%
Lloyds Bank Plc	1,700,000	0.65%	12/07/2016	12/10/2016	A	0.002%
Nationwide Building Society	23,700,000	0.50%	25/07/2016	02/11/2016	A	0.006%
Nationwide Building Society	9,400,000	0.31%	05/08/2016	07/11/2016	A	0.007%
Barclays Bank Plc	39,000,000	1.00%	27/11/2015	28/11/2016	A-	0.011%
National Australia Bank Ltd	10,900,000	0.58%	09/06/2016	09/12/2016	AA-	0.001%
Svenska Handelsbanken AB	5,000,000	0.30%	15/09/2016	15/12/2016	AA-	0.001%
Svenska Handelsbanken AB	1,400,000	0.30%	15/09/2016	15/12/2016	AA-	0.001%
Barclays Bank Plc	36,000,000	1.03%	21/12/2015	21/12/2016	A-	0.015%
Lloyds Bank Plc	27,800,000	1.05%	22/12/2015	22/12/2016	A	0.015%
Lloyds Bank Plc	10,000,000	0.90%	01/04/2016	02/01/2017	A	0.017%
Leeds Building Society	7,000,000	0.66%	20/06/2016	03/01/2017	A-	0.017%
Leeds Building Society	5,000,000	0.66%	20/06/2016	03/01/2017	A-	0.017%
Santander UK Plc	100,000,000	0.65%		Call95	A	0.017%
Nationwide Building Society	25,000,000	0.88%	06/04/2016	06/01/2017	A	0.018%
Leeds Building Society	8,000,000	0.66%	27/06/2016	11/01/2017	A-	0.019%
Lloyds Bank Plc	10,600,000	1.50%	01/02/2016	01/02/2017	A	0.023%
Coventry Building Society	4,100,000	0.37%	05/09/2016	06/03/2017	A	0.029%
Australia and New Zealand Banking Group Ltd	5,000,000	0.28%	05/09/2016	06/03/2017	AA-	0.003%

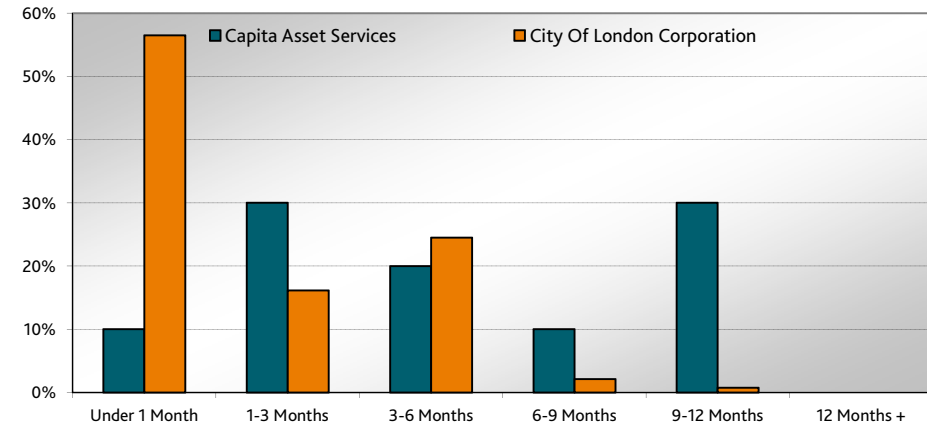
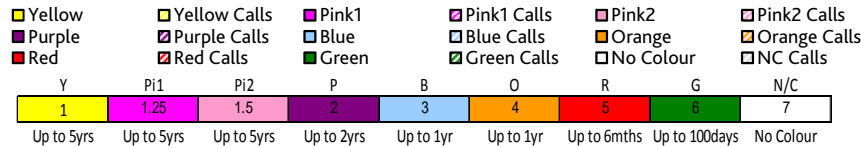
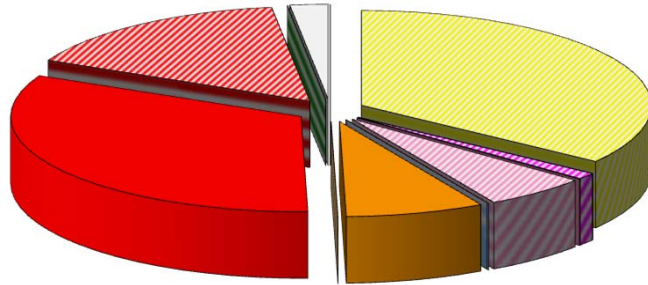
City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Nationwide Building Society	4,300,000	0.42%	06/09/2016	06/03/2017	A	0.029%
Nationwide Building Society	19,400,000	0.50%	07/09/2016	07/03/2017	A	0.029%
Nationwide Building Society	3,800,000	0.43%	15/09/2016	15/03/2017	A	0.030%
Nationwide Building Society	5,000,000	0.43%	26/09/2016	27/03/2017	A	0.033%
Barclays Bank Plc	25,000,000	0.53%	30/09/2016	30/03/2017	A-	0.033%
Skipton Building Society	20,000,000	1.05%	22/04/2016	24/04/2017	BBB	0.084%
Nationwide Building Society	7,200,000	0.65%	30/08/2016	30/08/2017	A	0.061%
Total Investments	£948,300,000	0.62%				0.009%

City Of London Corporation

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.32

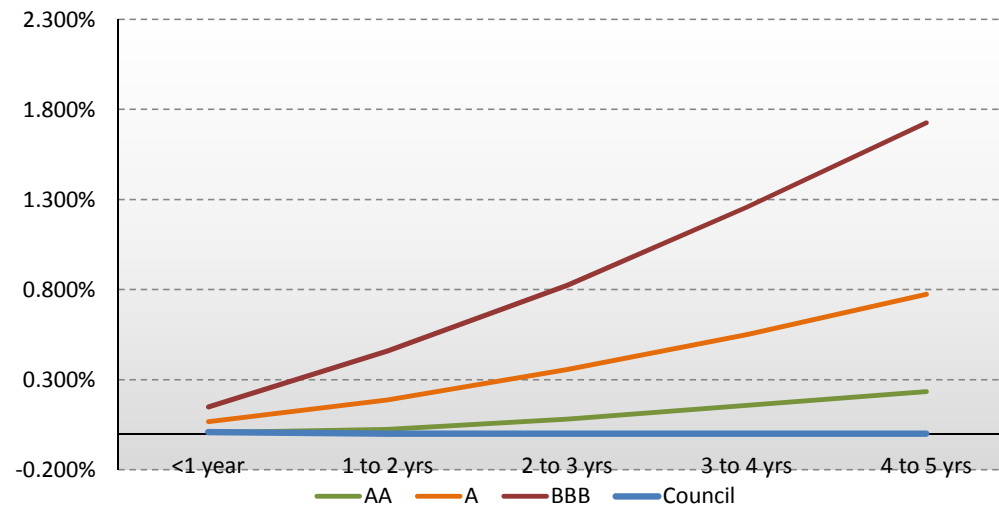
WARoR = Weighted Average Rate of Return

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/ECFs WAM	Excluding Calls/MMFs/ECFs WAM at Execution
Yellow	35.07%	£332,600,000	100.00%	£332,600,000	35.07%	0.39%	0	0	0	0
Pink1	1.05%	£10,000,000	100.00%	£10,000,000	1.05%	0.73%	0	0	0	0
Pink2	5.80%	£55,000,000	100.00%	£55,000,000	5.80%	1.18%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	7.70%	£73,000,000	0.00%	£0	0.00%	0.50%	34	131	34	131
Red	48.27%	£457,700,000	32.71%	£149,700,000	15.79%	0.71%	83	189	92	249
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	2.11%	£20,000,000	0.00%	£0	0.00%	1.05%	206	367	206	367
Total	100.00%	£948,300,000	57.71%	£547,300,000	57.71%	0.62%	47	109	81	234

Investment Risk and Rating Exposure

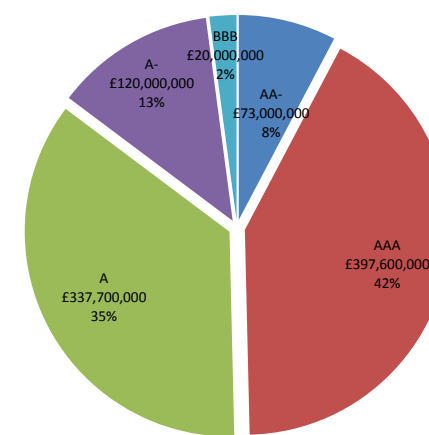
Investment Risk Vs. Rating Categories



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	0.007%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.010%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



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.

City Of London Corporation

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
07/09/2016	1472	Newcastle Building Society	U.K.	Affirmed and withdrew the ratings of Newcastle Building Society. Long Term Rating affirmed at 'BB+', 'Stable Outlook', Rating Withdrawn. Short Term Rating affirmed at 'B', Rating Withdrawn.

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
16/09/2016	1473	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating downgraded to 'A3' from 'A2', removed from 'Negative Watch' and placed on 'Negative Outlook'. Short Term Rating downgraded to 'P-2' from 'P-1', removed from 'Negative Watch'.

City Of London Corporation

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
19/09/216	1474	Finland Sovereign Rating	Finland	Affirmed at 'AA+', Outlook changed to 'Stable' from 'Negative'.

MONTHLY INVESTMENT REVIEW AS AT 30 SEPTEMBER 2016

	Couterparty Limit	Total Invested as at 30-Sep-16
	£M	£M
<u>TOTAL INVESTED</u>		<u>948.30</u>
 UK BANKS		
Barclays	100.0	100.0
HSBC	100.0	-
Lloyds	150.0	108.2
RBS	100.0	-
	<u>450.0</u>	<u>208.2</u>
 BUILDING SOCIETIES		
Coventry	20.0	16.2
Leeds	20.0	20.0
Nationwide	120.0	113.3
Skipton	20.0	20.0
Yorkshire	20.0	-
	<u>200.0</u>	<u>169.5</u>
 FOREIGN BANKS		
Australia & New Zealand	25.0	23.0
National Australia Bank	25.0	25.0
Svenska Handelsbanken	25.0	25.0
	<u>75.0</u>	<u>73.0</u>
 LIQUIDITY FUNDS		
Aberdeen Liquidity Fund	100.0	73.0
CCLA - Public Sector Deposit Fund	100.0	10.0
Deutsche Global Liquidity Fund	100.0	-
Federated Prime Liquidity Fund	100.0	88.9
Invesco Sterling Liquidity Fund	100.0	81.4
Payden Sterling Reserve Fund	100.0	55.0
Standard Life (Ignis) Liquidity Fund	100.0	89.3
	<u>600.0</u>	<u>397.6</u>
 NOTICE ACCOUNTS		
Santander 95 Days Account	100.0	100.0
 LOCAL AUTHORITIES		
Any Local Authority	25.0	-

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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