Public Document Pack

Financial Investment Board

Date: **THURSDAY, 1 DECEMBER 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

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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 27 October 2016.

For Decision
(Pages 1 - 4)

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

For Information
(Pages 5 - 6)

5. **TREASURY MANAGEMENT**

For Information

a) End of Year Treasury Management Review 2015-16 (Pages 7 - 10)
Report of the Chamberlain.

b) Mid Year Treasury Management review 2016/17 (Pages 11 - 16)
Report of the Chamberlain.

c) Monthly Investment Analysis Review (Pages 17 - 28)
Report of Capita Asset Services.

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 27 October 2016.

For Decision
(Pages 29 - 32)

10. **NON-PUBLIC OUTSTANDING ACTIONS**
Report of the Town Clerk.

For Information
(Pages 33 - 34)

11. **PROPOSED DELEGATION OF INVESTMENT MANAGEMENT POWERS**
Joint report of the Chamberlain and the Comptroller & City Solicitor.

For Information
(Pages 35 - 38)

12. **INVESTMENT PERFORMANCE MONITORING**
Reports of the Chamberlain and Mercer TO FOLLOW.

For Information

13. **PROPERTY INVESTMENT OPTIONS**
Report of Mercer.

For Decision
(Pages 39 - 46)

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

Thursday, 27 October 2016

Minutes of the meeting of the Financial Investment Board held at Committee Rooms - West Wing, Guildhall on Thursday, 27 October 2016 at 1.45 pm

Present

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

In Attendance

Officers:

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

1. **APOLOGIES**
   Apologies were received from Alderman Peter Hewitt and Clare James.

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 September 2016 be agreed as a correct record.

4. **OUTSTANDING ACTIONS**
   The Board received and discussed the list of Outstanding Actions, and the Chairman clarified that the presentation on the Charities Pool would be for unit holders, although Board Members would be invited to attend.

   RESOLVED – That the report be noted.

5. **MONTHLY INVESTMENT ANALYSIS REVIEW**
   The Board received the monthly review for September 2016, which detailed the list of current investments. With regards to better use of cash reserves, officers advised they were meeting with Capita Asset Services, the City's Treasury advisors, to discuss what options might be available to the City.

RESOLVED – That the report be noted, and future monthly investment analysis reviews be circulated to the Board electronically as soon as they were available.

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

   There were no questions.

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

   MiFID II

   The Markets in Financial Instruments Directive (MiFID) was applied in the UK from November 2007, but was being revised. Consultations were currently underway, but Members noted MiFID II was likely to have serious implications on the Corporation with regard to the treasury management function and as administrators of the pension fund. The changes were currently set to take effect from 3 January 2018, with organisations being required to start planning for the changes ahead of implementation.

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**
9-13, 15	3
14	-

9. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

   RESOLVED - That the non-public minutes of the meeting held on 6 September 2016 be agreed as a correct record.

10. **NON-PUBLIC OUTSTANDING ACTIONS**

    The Board received and discussed the list of non-public Outstanding Actions.

    RESOLVED – That the report be noted.

11. **PRESENTATION FROM WELLINGTON MANAGEMENT**

    The Board received a presentation from Wellington Management.

12. **PRESENTATION FROM IFM INVESTORS**

    The Board received a presentation from IFM Investors.

13. **PROPERTY INVESTMENT OPTIONS**

    The Board considered a report of Mercer.

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

    There were no non-public questions.

15. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was one item of other business.

The meeting ended at 3.23 pm

Chairman

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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	**Charities Pool**	Corporate Treasurer / Chamberlain	January/March	Presentation to be arranged for investors after accounts are signed off in November, and after results of the survey have been received.

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Committee:	Date:
Financial Investment Board	1 December 2016
Subject: End of Year Treasury Management Review 2015-16	**Public**
Report of: The Chamberlain	**For Information**
Report author: Kate Limna – Corporate Treasurer	

Summary

The Treasury Management Strategy Statement for 2015/16 was approved by the Financial Investment Board and the Finance Committee in February 2015 and by the Court of Common Council on 3 March 2015.

Under CIPFA's Code of Practice on Treasury Management, which was adopted by the Court of Common Council on 3 March 2010, there is a requirement to provide an end of year report. The main points to note are as follows:

- As at 31 March 2016, the City had cash balances totalling some £858.8m. The majority of the balances are held for payment to third parties or are restricted reserves. Some £200m is being held as part of the City's contribution to Crossrail and a potential property purchase**.** The contribution to Crossrail was originally due to be paid in March 2016 but this has been pushed back to March 2017.
- The period was characterised by very low returns and the Bank of England base rate remained at 0.5% for the seventh successive year.
- The investment strategy during the year conformed to the approved strategy and there were no liquidity difficulties.
- As the cash holdings in money market funds are considerable, in consultation with its Treasury Management Advisors, Capita Asset Services, the City is looking at alternative investments for its cash balances.

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. The City of London Corporation (the City) is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. The Treasury Management Strategy Statement for 2015/16 was approved by the Financial Investment Board (5 February 2015), Finance Committee (17 February 2015) and the Court of Common Council (5 March 2015) During 2015/16 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2016

3. At the beginning and the end of 2015/16 the City's treasury position was as follows:

Table 1	**31/03/15 Principal £m**	**Rate/ Return %**	**Average Life Yrs**	**31/03/16 Principal £m**	**Rate/ Return %**	**Average Life Yrs**
Fixed rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Variable rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Other long term liabilities	0			0		
Gross debt	**0**			**0**		
Total investments	**730.9**	**0.65**	**1**	**858.8**	**0.67**	**1**
Net Investments	**730.9**	**0.65**	**1**	**858.8**	**0.67**	**1**

The Strategy for 2015/16

4. The expectation for interest rates within the treasury management strategy for 2015/16 was for low but rising Bank Rate, (starting in quarter 4), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
5. There were no changes to the Strategy during 2015/16.

Borrowing Requirement and Debt

6. No capital borrowing was required during 2015/16

Investment Rates in 2015/16

7. Bank Rate remained at its historic low of 0.5% throughout the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year,

primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising. The Bank Rate reduced from 0.5% to 0.25% on 4 August 2016.

Investment Outturn for 2015/16

8. **Investment Policy** – the City's investment policy has regard to the CLG's Guidance on Local Government Investments and the CIPFA Treasury Management Code which has been implemented in the annual investment strategy approved by the Court of Common Council on 3 March 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

9. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

10. **Investments held by the City** - the City maintained an average balance of £857.8m of internally managed funds. The internally managed funds earned an average rate of return of 0.67% as at 31 March 2016. This compares with a budget assumption of an average rate of 0.5%.

Conclusion

11. The year was characterised by continuing low levels of return as the Bank of England base rate remained at 0.5% for the seventh successive year. Cash balances increased from £730.9m at the start of the year to £858.8m at by 31March 2016 and in conjunction with Capita Asset Services, the City's Treasury Management advisors, your officers are looking at alternative investments for these cash balances.

Appendices

Appendix 1 – Treasury Indicators

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Corporate Treasurer

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Appendix 1:

Treasury Indicators

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

TABLE 2: Maturity structure of fixed rate borrowing during 2015/16	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%

Committee:	Date:
Financial Investment Board	1 December 2016
Subject: Mid Year Treasury Management Review 2016-17	**Public**
Report of: The Chamberlain	**For Information**
Report author: Kate Limna – Corporate Treasurer	

Summary

The Treasury Management Strategy Statement for 2016/17 was approved by the Financial Investment Board and the Finance Committee in February 2016 and by the Court of Common Council on 3 March 2016.

Under CIPFA's Code of Practice on Treasury Management, which was adopted by the Court of Common Council on 3 March 2010, there is a requirement to provide a mid-year review. The main points to note are as follows:

- Following approval of the 2016/17 Treasury Management Strategy Statement, the Treasury Management Indicators were amended to accommodate a property transaction.
- As at 30 September 2016, the City had cash balances totalling some £948.33m. The majority of the balances are held for payment to third parties or are restricted reserves. Some £200m is being held as part of the City's contribution to Crossrail**.** This contribution was originally due to be paid in March 2016 but this has been pushed back to March 2017.
- As the cash holdings in money market funds are considerable, the City is looking at alternative investments for its cash balances in consultation with its Treasury Management Advisors, Capita Asset Services.

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. 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.

2. 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.

3. The City's Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) which was adopted by the Court of Common Council on 3 March 2010.

4. 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 transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Treasury Management Strategy Statement and Annual Investment Strategy Update

5. The Treasury Management Strategy Statement for 2016/17 was approved by the Financial Investment Board (4 February 2016) and the Finance Committee (16 February 2016) and the Court of Common Council (3 March 2016).

6. In March 2016 it was necessary to amend the Treasury Management Indicators to accommodate a specific property transaction. This change was agreed under the City's Urgency Procedures and Appendix 1 sets out the changes

Investment Portfolio

7. It is the City's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with its risk appetite. The underlying economic environment remains challenging for the City and it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Base Rate.

8. The City held £948.3m of investments as at 30 September 2016 (£858.8m at 31 March 2016). The majority of the balances are held for payment to third parties or are restricted reserves. Some £200m is being held as part of the City's contribution to Crossrail – this contribution was originally due to be paid in March 2016 but this has been pushed back to March 2017. It is becoming increasingly difficult to find suitable counterparties to invest in and your officers are consulting with Capita Asset Services (the City's Treasury Management Advisors) on alternative investments. An initial meeting has taken place and officers are undertaking a cash flow modelling exercise that will take account of the City's short, medium and long term spending plans.

Borrowing Strategy

9. It is anticipated that there will be no capital borrowings required during 2016/17.

Economic Review

10. A detailed commentary on the economy and interest rates as provided by Capita Asset Services (the City's Treasury Management advisors) can be found at Appendix 2. In summary they currently expect the bank base rate to be reduced to 0.1% in December and to remain at this level until June 2018.

Conclusion

11. The City continues to hold considerable cash balances in money market funds and it is becoming increasingly difficult to find suitable counterparties and reasonable returns. The Bank of England base rate was cut from 0.5% to 0.25% on 4 August and it is likely that there will be a further cut to 0.1%. In consultation with Capita Asset Services, officers are looking at alternative investments and undertaking a cash flow modelling exercise which will take account of the City's spending plans over the short, medium and long term.

Appendices

Appendix 1 – Changes to the 2016/17 Treasury Management Strategy (March 2016)
Appendix 2 - Economic and Interest Rate Update from Capita Asset Services

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Appendix 1

Changes to the 2016/17 Treasury Management Strategy Statement – March 2016

Extract from 2016/17 Treasury Management Strategy Statement and Annual Investment Strategy (TMSS & AIS): Section 2 and Appendix 3: Table 1

Section 2 Treasury Limits for 2016/17 to 2018/19

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 including credit arrangements e.g. finance leases. The Authorised Limit is to be set on a rolling basis for the forthcoming financial year and two successive financial years.

Appendix 3: Table 1 (Extract)

CURRENT TREASURY MANAGEMENT INDICATORS	2014/15	2015/16	2016/17	2017/18	2018/19
	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

The table above is an extract from Appendix 3 Table 1 of the TMSS& AIS showing the current Authorised Limit, whilst the table below shows the changes required.

PROPOSED TREASURY MANAGEMENT INDICATORS	2014/15	2015/16	2016/17	2017/18	2018/19
	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	£27,510	£27,460	£27,410	£27,360
TOTAL	£0	£27,510	£27,460	£27,410	£27,360
Operational Boundary for external debt - *					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£27,510	£27,460	£27,410	£27,360
TOTAL	£0	£27,510	£27,460	£27,410	£27,360

* The purpose of this indicator is simply to highlight the liability element of this agreement – it does not take account of the overall net benefit to the Corporation.

* The controls effectively treat the City's one-off premium for the lease as a payment in advance for an ongoing rental liability over the lease term – with this 'liability' classed as borrowing. However, the City continues to have no external borrowing.

Appendix 2

Economic and Interest Rate Update from Capita Asset Services

Economic Update

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest Rate forecasts

The City's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to 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.

CAPITA
Treasury solutions

Asset Services

City Of London Corporation

Monthly Investment Analysis Review

October 2016

Monthly Economic Summary

General Economy

Uncertain, unclear, unpredictable; just a few words used to describe Britain's post-Brexit economic outlook with the month of October continuing this trend. The collapse in Sterling was the key talking point for the month as unexpected events increased its volatility in currency markets. Theresa May's announcement on the final day of the Conservative Party Conference, that Article 50 would be "triggered no later than the end of March," caused the currency to fall by 1%. Philip Hammond added fuel to this fall by insinuating a "Hard Brexit" with departure from the Single Market being the desired route of action for Britain, followed by the potential to pursue a Customs Union once Brexit is complete. These announcements caused material levels of volatility in markets through the start of the month, even though official negotiations have yet to commence.

This initial tumble in Sterling was followed by the most detrimental event for the month; the 'Flash Crash' in the currency, where its value fell by 6% in 2 minutes, causing investors to worry that it could fall further. The crash was put partly down to a 'fat-finger trade' or faulty automatic trading algorithms. However, the factor to cause concern was that the currency never rebounded back to its original, pre-crash level. The currency is currently 16% less than it was pre-Brexit. One advantage of the depreciation is that it will help boost exports in the economy as the price of goods and services is relatively cheaper to those abroad. Nevertheless, greater inflationary pressure is another by-product of the currency depreciation. It is now widely anticipated that by 2018 inflation will be at least 3%, thus higher than the Monetary Policy Committee's target rate of 2%. This increase, combined with a materially better than expected performance of the economy, has led markets to conclude that an interest rate cut before the close of the year is highly unlikely.

The Purchasing Managers Index (PMI) figures were the first pieces of key data to be released for the month, providing investors with further insight into the economy's performance post-Brexit. On the whole figures were positive, with manufacturing activity rising to 55.4 from 53.4 in August, its fastest rate since June 2014. Likewise, the Construction PMI registered a rise, to 52.3 from 49.2 in August, beating the forecasted value of 49.0. The Services PMI also remained upbeat, despite it contracting slightly to 52.6 from 52.9 in August, even though the abnormally high August figure is believed to be a reaction to the unusually low July figure of 47.4. These figures broadly supported the case of not having an interest rate cut in November. All sectors of the economy saw activity readings in excess of 50, the level that separates "expansion" from "contraction".

Inflation figures for September were too early to reveal the effect which the 16% fall in Sterling had on the economy. Consumer-level inflation (CPI) for the year rose to 1.0%, its sharpest increase since November 2014, beating expectations of 0.9%. Furthermore, wholesale prices also increased, to 2.2% year-on-year. It was stated that the sharp increase was simply due to a rise in both clothing and fuel prices through the month. However, the Sterling impact will feed through, but typically lags by a number of months, so further upside movement is widely anticipated in the future. Elsewhere, figures showed that despite the labour market showing signs of it enduring the Brexit shock, growth in the labour market slowed. The claimant count rose by 700 to 776,400 in September with the unemployment rate remaining at 4.9%, despite an increase in the number of unemployed in the economy to 1.656 million in the three months to August.

Despite unexpected warm weather and higher prices for new clothing dampening demand towards the end of the third quarter, UK retail sales recorded its strongest quarter since late 2014. In the three months to September sales grew by 1.8% despite a disappointing 0.0% change on the month. On the year, sales were down from Augusts' figure of 6.6% as data for September came in at 4.1%, lower than the forecasted 4.8%. Many economists fear that the knock-on effect from rising inflation in the form of rising prices, will heavily affect consumer demand in the economy as a result of the sharp decline in Sterling since the EU referendum; a factor which caused the consumer confidence GfK index to fall to -3 in October from -1 in September.

Public finances also added to Britain's list of problems as it showed a larger than forecasted deficit for September of £10.6bn, 14.5% higher than the deficit in the same month last year. Corporation tax receipts unexpectedly experienced its first fall since September 2009, with experts struggling to understand the reasoning behind the drop given other, more robust data releases . Therefore, the chances of Britain reaching its budget target for the year have all but disappeared after this release. However, current target levels are expected to be torn up at Chancellor Philip Hammond's first Autumn Statement in November. The more robust performance of the economy through the quarter was clearly reflected in the first estimate of Q3 Gross Domestic Product (GDP). This came in above both market and Bank of England expectations at 0.5% on the quarter, with annual growth at 2.3%. The breakdown revealed that while both construction and manufacturing activity declined, a strong performance from the services sector was the key driver. Looking ahead, with prices on the rise, there remain serious question marks as to whether this level of activity can be maintained.

Across the pond US employment growth unexpectedly continued to slow for September as the unemployment rate rose to 5.0% from 4.9% in the previous month. Despite non-farm payrolls rising by 156,000, it was still down from the revised figure of 167,000 for August. Fed Chair, Janet Yellen, has previously stated that sustainable job gains in the US economy should be at 100,000 monthly in order to remain consistent with population growth. On the other hand, Q3 GDP figures were upbeat for the quarter as it increased at 2.9% on an annualised basis, exceeding the 1.4% recorded in Q2. This strong rate was largely due to a 2.1% increase in consumer spending for the quarter, as well as a 10% rise in soybean exports. The figures increased expectations that the Federal Reserve would hike rates before the close of the year. However, uncertainty over the outcome of November's Presidential Election could still prove a key factor on what the central bank decides.

Data for the Eurozone showed that growth in the third quarter remained steady, as expected. According to Eurostat, GDP in the third quarter rose by 0.3% on the quarter and 1.6% on the year. Elsewhere, a "Flash" estimate for CPI showed that it rose 0.5% year-on-year in October from 0.4% in September. The combination of tepid growth and still scant levels of inflation lead many economists to forecast that the European Central Bank will extend its loose monetary policy, potentially at its December meeting.

Britain's future is a subject which no-one can confidently predict, which leads to turbulence in financial markets. What can be said is that the economic events set to be held in November have the potential to cause further fluctuations in financial markets. The Bank of England Quarterly Inflation Report and the Chancellor's Autumn Statement will provide an insight as to what the experts expect to happen in the UK over the coming months. Further afield, the spotlight will be on the US Presidential Election on the 8th of November and what ramifications this may have going forwards.

Housing

House price growth continued to slow in September as the previous surge in values damped demand in the market, according to Halifax. On the month, values increased by 0.1% leaving the annual figure at 5.8%. This was down from 6.9% in August and the lowest figure since August 2013. Towards the close of the month, Nationwide shared a similar view as it reported that the housing market recorded its slowest annual price growth since January in October at 4.6%, down from September's figure of 5.3%. These figures combined lent some support to Theresa May's statement that government intervention is needed to repair the 'dysfunctional' housing market.

Forecast

Capita Asset Services (CAS) did not alter their forecasts this month. Capital Economics altered their forecasts this month as a result of the recent volatility in the financial markets. 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%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen	93,500,000	0.37%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.29%		MMF	AAA	0.000%
MMF Federated Investors (UK)	70,100,000	0.35%		MMF	AAA	0.000%
MMF Federated Investors (UK)	4,200,000	0.31%		MMF	AAA	0.000%
ECF Federated Sterling Cash Plus Fund	5,000,000	0.48%		ECF	AAA	0.000%
MMF Invesco	81,400,000	0.40%		MMF	AAA	0.000%
MMF Invesco	1,300,000	0.33%		MMF	AAA	0.000%
ECF Payden Sterling Reserve Fund	55,000,000	1.10%		ECF	AAA	0.000%
MMF Standard Life	53,700,000	0.36%		MMF	AAA	0.000%
MMF Standard Life	8,600,000	0.33%		MMF	AAA	0.000%
ECF Standard Life Short Duration Cash Fund	5,000,000	0.85%		ECF	AAA	0.000%
Lloyds Bank Plc	31,000,000	0.25%		Call	A	0.000%
Nationwide Building Society	23,700,000	0.50%	25/07/2016	02/11/2016	A	0.000%
Nationwide Building Society	9,400,000	0.31%	05/08/2016	07/11/2016	A	0.001%
Barclays Bank Plc	39,000,000	1.00%	27/11/2015	28/11/2016	A-	0.005%
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-	0.009%
Lloyds Bank Plc	27,800,000	1.05%	22/12/2015	22/12/2016	A	0.010%
Lloyds Bank Plc	10,000,000	0.90%	01/04/2016	02/01/2017	A	0.012%
Australia and New Zealand Banking Group Ltd	5,000,000	0.26%	03/10/2016	03/01/2017	AA-	0.001%
Leeds Building Society	7,000,000	0.66%	20/06/2016	03/01/2017	A-	0.012%
Leeds Building Society	5,000,000	0.66%	20/06/2016	03/01/2017	A-	0.012%
Nationwide Building Society	25,000,000	0.88%	06/04/2016	06/01/2017	A	0.012%
Lloyds Bank Plc	14,600,000	0.50%	07/10/2016	09/01/2017	A	0.013%
Leeds Building Society	8,000,000	0.66%	27/06/2016	11/01/2017	A-	0.013%
Svenska Handelsbanken AB	18,600,000	0.32%	12/10/2016	12/01/2017	AA-	0.001%
Lloyds Bank Plc	1,800,000	0.50%	13/10/2016	13/01/2017	A	0.014%
Lloyds Bank Plc	2,700,000	0.50%	20/10/2016	20/01/2017	A	0.015%
Lloyds Bank Plc	5,700,000	0.50%	26/10/2016	26/01/2017	A	0.016%
Lloyds Bank Plc	3,200,000	0.50%	27/10/2016	27/01/2017	A	0.016%
Lloyds Bank Plc	1,200,000	0.50%	28/10/2016	30/01/2017	A	0.017%
Australia and New Zealand Banking Group Ltd	15,000,000	0.30%	31/10/2016	31/01/2017	AA-	0.002%
Lloyds Bank Plc	10,600,000	1.50%	01/02/2016	01/02/2017	A	0.017%
Santander UK Plc	100,000,000	0.65%		Call95	A	0.017%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Coventry Building Society	10,600,000	0.33%	04/10/2016	20/02/2017	A	0.021%
Coventry Building Society	5,300,000	0.33%	05/10/2016	27/02/2017	A	0.022%
Nationwide Building Society	6,700,000	0.39%	03/10/2016	03/03/2017	A	0.023%
Australia and New Zealand Banking Group Ltd	5,000,000	0.28%	05/09/2016	06/03/2017	AA-	0.002%
Coventry Building Society	4,100,000	0.37%	05/09/2016	06/03/2017	A	0.023%
Nationwide Building Society	4,300,000	0.42%	06/09/2016	06/03/2017	A	0.023%
Nationwide Building Society	5,300,000	0.36%	06/10/2016	06/03/2017	A	0.023%
Nationwide Building Society	19,400,000	0.50%	07/09/2016	07/03/2017	A	0.023%
Nationwide Building Society	3,800,000	0.43%	15/09/2016	15/03/2017	A	0.025%
Nationwide Building Society	10,200,000	0.44%	07/10/2016	24/03/2017	A	0.026%
Nationwide Building Society	5,000,000	0.43%	26/09/2016	27/03/2017	A	0.027%
Barclays Bank Plc	25,000,000	0.53%	30/09/2016	30/03/2017	A-	0.028%
Skipton Building Society	20,000,000	1.05%	22/04/2016	24/04/2017	BBB	0.072%
Nationwide Building Society	7,200,000	0.65%	30/08/2016	30/08/2017	A	0.056%
Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.062%
Total Investments	**£967,300,000**	**0.59%**				0.010%

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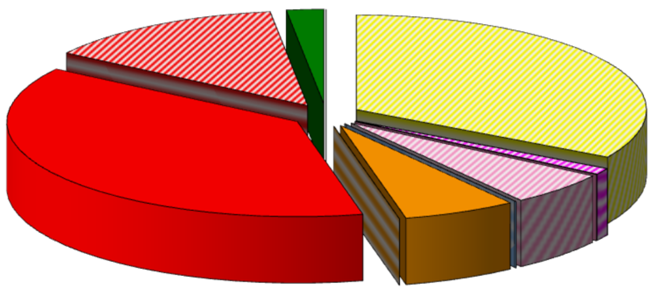
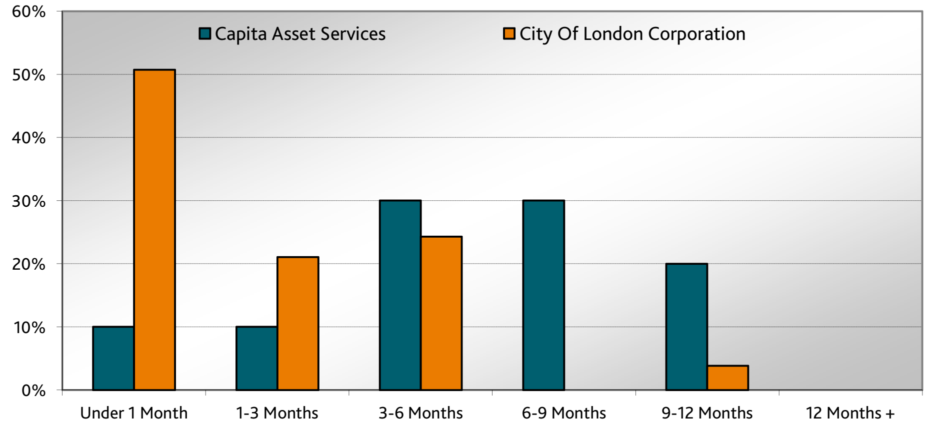
Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





- Yellow
- Purple
- Red
- Yellow Calls
- Purple Calls
- Red Calls
- Pink1
- Blue
- Green
- Pink1 Calls
- Blue Calls
- Green Calls
- Pink2
- Orange
- No Colour
- Pink2 Calls
- Orange Calls
- NC Calls

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

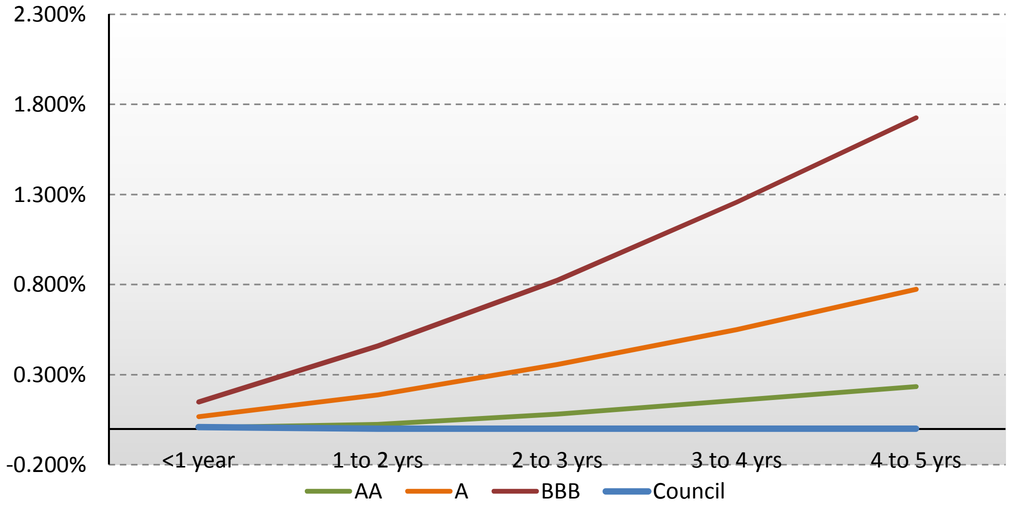
Portfolios weighted average risk number = 3.39

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

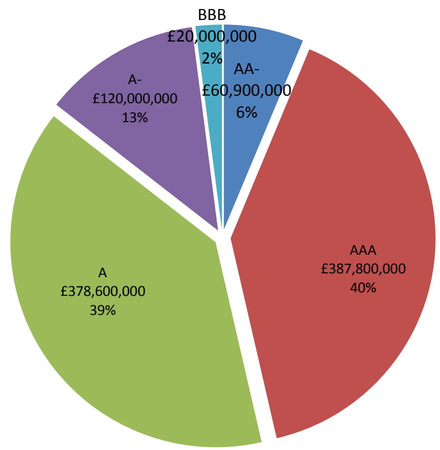
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/ECFs WAM	Excluding Calls/MMFs/ECFs WAM at Execution
Yellow	33.37%	£322,800,000	100.00%	£322,800,000	33.37%	0.37%	0	0	0	0
Pink1	1.03%	£10,000,000	100.00%	£10,000,000	1.03%	0.67%	0	0	0	0
Pink2	5.69%	£55,000,000	100.00%	£55,000,000	5.69%	1.10%	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	6.30%	£60,900,000	0.00%	£0	0.00%	0.35%	72	116	72	116
Red	51.55%	£498,600,000	26.27%	£131,000,000	13.54%	0.69%	93	203	101	249
Green	2.07%	£20,000,000	0.00%	£0	0.00%	1.05%	175	367	175	367
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£967,300,000**	**53.63%**	**£518,800,000**	**53.63%**	**0.59%**	**56**	**119**	**100**	**236**

Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



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	0.007%	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%

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.

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Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
05/10/2016	1475	Wells Fargo Bank NA	U.S.A	Long Term Rating affirmed at 'AA', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1+'.
14/10/2016	1479	Standard Chartered Bank	U.K	Long Term Rating affirmed at 'A+', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'F1'. Viability Rating downgraded to 'a' from 'a+'.

City Of London Corporation

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/10/2016	1476	Skipton Building Society	U.K	Long Term Rating affirmed at 'Baa2', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'P-2'.
12/10/2016	1477	Danske Bank	Denmark	Long Term Rating upgraded to 'A1' from 'A2', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'P-1'.

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
13/10/2016	1478	Credit Industriel et Commercial	France	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'.
19/10/2016	1480	Wells Fargo Bank NA	U.S.A	Long Term Rating affirmed at 'AA-', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'A-1+'.
24/10/2016	1481	France Sovereign Rating	France	Sovereign Rating affirmed at 'AA', Outlook changed to Stable from Negative.
25/10/2016	1482	KBC Bank NV	Belgium	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'.
31/10/2016	1483	Macquarie Bank Limited	Australia	Long Term Rating affirmed at 'A', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'A-1'.

MONTHLY INVESTMENT REVIEW AS AT 31 OCTOBER 2016

	Couterparty Limit £M	Total Invested as at 31-Oct-16 £M
TOTAL INVESTED		**967.30**
UK BANKS		
Barclays	100.0	100.0
HSBC	100.0	-
Lloyds	150.0	138.6
RBS	100.0	-
	450.0	238.6
BUILDING SOCIETIES		
Coventry	20.0	20.0
Leeds	20.0	20.0
Nationwide	120.0	120.0
Skipton	20.0	20.0
Yorkshire	20.0	-
	200.0	180.0
FOREIGN BANKS		
Australia & New Zealand	25.0	25.0
National Australia Bank	25.0	10.9
Svenska Handelsbanken	25.0	25.0
	75.0	60.9
LIQUIDITY FUNDS		
Aberdeen Liquidity Fund	100.0	93.5
CCLA - Public Sector Deposit Fund	100.0	10.0
Deutsche Global Liquidity Fund	100.0	-
Federated Prime Liquidity Fund	100.0	79.3
Invesco Sterling Liquidity Fund	100.0	82.7
Payden Sterling Reserve Fund	100.0	55.0
Standard Life (Ignis) Liquidity Fund	100.0	67.3
	600.0	387.8
NOTICE ACCOUNTS		
Santander 95 Days Account	100.0	100.0
LOCAL AUTHORITIES		
Any Local Authority	25.0	-

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Agenda Item 11

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