



## Financial Investment Board

**Date:** THURSDAY, 26 OCTOBER 2017  
**Time:** 1.45 pm  
**Venue:** COMMITTEE ROOMS - WEST WING, GUILDHALL

**Members:** Andrew McMurtrie (Chairman)  
Nicholas Bensted-Smith (Deputy Chairman)  
Alexander Barr  
Henry Colthurst  
Alderman Robert Howard  
Deputy Jamie Ingham Clark  
Deputy Clare James  
Tim Levene  
Andrien Meyers  
Deputy Henry Pollard  
James de Sausmarez  
Ian Seaton  
Deputy Philip Woodhouse

**Enquiries:** Joseph Anstee  
tel. no.: 020 7332 1480  
[joseph.anstee@cityoflondon.gov.uk](mailto:joseph.anstee@cityoflondon.gov.uk)

**Lunch will be served in 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 5th September 2017.  
  
**For Decision**  
(Pages 1 - 6)
4. **OUTSTANDING ACTIONS**  
Report of the Town Clerk.  
  
**For Information**  
(Pages 7 - 8)
5. **MONTHLY INVESTMENT ANALYSIS REVIEW**  
Report of the Chamberlain.  
  
**For Information**  
(Pages 9 - 22)
6. **TREASURY MANAGEMENT REVIEW 2016/17**  
Report of the Chamberlain.  
  
**For Information**  
(Pages 23 - 28)
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 5th September 2017.  
**For Decision**  
(Pages 29 - 32)
11. **NON PUBLIC OUTSTANDING ACTIONS**  
Report of the Town Clerk.  
**For Information**  
(Pages 33 - 34)
12. **MERCER'S PRESENTATION ON MULTI ASSET CREDIT**  
Report of Mercer.  
**For Information**  
(Pages 35 - 52)
13. **PENSION FUND - FINAL INVESTMENT STRATEGY REVIEW**  
Covering report of the Chamberlain and Report of Mercer.  
**For Decision**  
(Pages 53 - 112)
14. **PENSION FUND - LONDON CIV AVAILABLE INVESTMENT FUNDS**  
Report of the Chamberlain.  
**For Information**  
(Pages 113 - 144)
15. **INVESTMENTS PERFORMANCE MONITORING TO 31 AUGUST 2017**  
**For Decision**  
(Pages 145 - 168)
16. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
17. **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, 5 September 2017**

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

### **Present**

#### **Members:**

Andrew McMurtrie (Chairman)  
Nicholas Bensted-Smith (Deputy  
Chairman)  
Alexander Barr  
Deputy Jamie Ingham Clark  
Deputy Clare James  
Tim Levene

Andrien Meyers  
Deputy Henry Pollard  
James de Sausmarez  
Ian Seaton  
Deputy Philip Woodhouse

#### **Officers:**

Sacha Than	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Chamberlain's Department
Tom Broughton	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Catrina Arbuckle	-	Mercer

### **1. APOLOGIES**

Apologies were received from Henry Colthurst and Alderman Robert Howard.

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

Alexander Barr declared an interest due to working for Standard Life Aberdeen PLC which is branded as Aberdeen Standard Investments.

James de Sausmarez declared an interest in respect of Item 13 due to working for Janus Henderson and withdrew from part of the discussion at this item.

### **3. MINUTES OF THE PREVIOUS MEETING**

**RESOLVED** - That the public minutes and non-public summary of the meeting held on 29 June 2017 be agreed as a correct record.

### **4. OUTSTANDING ACTIONS**

The Board received the list of outstanding actions and the Chairman noted there were no public actions at present.

In response to a Member's request for an update on the letter received from the Minister for Local Government in relation to Local Government Pension

Scheme Investment Pooling, the Chamberlain explained that this letter would be circulated to the Board following the meeting, and the letter confirmed that all funds must fully participate in a Pool, and those Pools must have an FCA authorised operator. The Chamberlain further explained that although all Pools must be operational by April 2018 (and the London CIV is fully operational already) there are no specific deadlines for on-boarding any individual asset class allocations onto the Pool. The Pools are required to update Ministers on progress periodically. The Chamberlain suggested it might be helpful to invite officers from the London CIV to a future FIB meeting.

**RESOLVED** – That the report be noted.

5. **MONTHLY INVESTMENT ANALYSIS REVIEW**

The Board received the monthly review for July 2017 which detailed the list of current investments.

**RESOLVED** – That the analysis review be noted.

6. **IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MIFID II)**

The Board received a report of the Chamberlain which asked Members to agree that elections to profession client status should be made on behalf of the authority.

The Chairman explained that in order to continue to effectively implement the City Corporation's investment strategy after 3 January 2018, applications for election to be treated as professional clients should be submitted to all financial institutions with whom the City Corporation has an existing or potential relationship with, in relation to the investment of the pension fund and the treasury management function.

The Board agreed that the Chamberlain should be granted the necessary delegation to make applications on the City Corporation's behalf and to determine the nature of the application on either full or single service basis.

The Chamberlain explained that a training programme would be rolled out to Members of the Board which could include self-assessment elements and other needs-based training.

In response to a Member's question, the Chamberlain confirmed that if in the future, Members of the Court were interested in joining the Financial Investment Board, those who had not received relevant training would still be eligible to join the Board. The Chamberlain further explained that the Board was comprised of highly qualified finance professionals and the Chamberlain's Department would, if necessary contact Members regarding their biographies to send as part of the application.

**RESOLVED** – That the Board:

- a) note the potential impact on investment strategy of becoming a retail client with effect from 3<sup>rd</sup> January 2018;
- b) agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;
- c) note that in electing for professional client status the Board acknowledges and agrees to forgo the protections available to retail clients as at appendix one in the report before Members;
- d) note that a training programme will need to be formalised to better evidence and expertise, experience and knowledge of the Board as set out in paragraph nine of the report before Members and a further report would follow in due course;
- e) agree to delegate responsibility to the Chamberlain for the purposes of completing the applications and determining the basis of the application as either full or single service.

## 7. **RESPONSIBLE INVESTMENT - NEXT STEPS**

The Board received a report of the Chamberlain which set out further actions to be taken in order to continue to build responsible investment, this would commence with a Survey of Financial Investment Board Members on their investment beliefs and the results of this would inform a workshop and subsequent discussions.

The Board noted that it would be useful for the Survey to also seek views on implementation of Environmental, Social and Governance (ESG) considerations for investment policies. The Board further noted that it would be useful for the Survey to be shared with Members of the Social Investment Board (SIB) and asked the Chamberlain to liaise with SIB Members. The Board asked that a note of this discussion and the report before Members be sent to the next meeting of the Social Investment Board.

**RESOLVED** – That the Board agree:

- a) to a survey of FIB Members on their investment beliefs in relation to RI/ESG considerations;
- b) following the analysis of the survey results, a workshop/FIB discussion on a Responsible Investment draft policy statement, that would feed into the wider Investment Strategy;
- c) to subsequently, prepare an implementation plan that would enable us to commit to the UK Stewardship Code and to the Principles of Responsible Investment within an agreed timeframe; and
- d) that a note of this discussion and the report before Members be sent to the next meeting of the Social Investment Board.

## 8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no questions.

A Member explained that a new Guild of Investment Managers was being formed for those already not in a Livery Company and it was hoped that this

guild would later be awarded Livery status. Applications would be welcome from those interested in joining.

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

There was no other business.

10. **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
11-15	3
16-17	-

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

**RESOLVED** - That the non-public minutes of the meeting held on 29 June 2017 be agreed as a correct record.

12. **NON-PUBLIC OUTSTANDING ACTIONS**

The Board received the list of non-public outstanding actions.

**RESOLVED** – That the report be noted.

13. **PENSION FUND - DRAFT INVESTMENT STRATEGY REVIEW**

The Board considered a covering report of the Chamberlain and a report of Mercer.

14. **INVESTMENT MONITORING REPORT**

The Board considered a report of the Chamberlain.

15. **SIR WILLIAM COXEN TRUST FUND (206936): FUTURE PLANS AND OBJECTIVES**

The Board considered a report of the Town Clerk.

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.

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

There were no non-public questions.

**The meeting closed at 3.03 pm**



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Chairman

**Contact Officer: Sacha Than (interim cover)**  
**tel. no.: 020 7332 3419**  
**sacha.than@cityoflondon.gov.uk**

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### **Financial Investment Board – Outstanding Actions**

<b>Item</b>	<b>Date</b>	<b>Action</b>	<b>Officer responsible</b>	<b>To be completed/ progressed to next stage</b>	<b>Progress Update</b>
1.	5 September 2017	Letter from Minister for Local Government to be circulated	Chamberlain	Following the meeting	Completed
2.	5 September 2017	Applications for Elected Professional Client Status	Corporate Treasurer / Chamberlain	3 <sup>rd</sup> January 2018	Chamberlain to provide further update
3.	5 September 2017	Survey for Members of FIB and SIB	Corporate Treasurer / Chamberlain	Following the meeting	Resolution sent to Members of SIB by Town Clerk. Chamberlain to provide further update.

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# City Of London Corporation

## Monthly Investment Analysis Review

August 2017



## City Of London Corporation

### Monthly Economic Summary

#### General Economy

The increasingly turbulent Brexit negotiations have, unsurprisingly, been the centre of attention for the Government last month and the turbulence has not stopped there. With the mixed bag of economic data throughout August, the Government and the Bank of England (BoE) are in the midst of a difficult juggling act.

The month kicked off with manufacturing activity data. The Markit/CIPS UK Manufacturing Purchasing Manager's Index (PMI) showed that the headline reading increased to 55.1 as the UK saw its 'biggest influx of new export orders since 2010', thus, exceeding the consensus of a move to 54.4. This increase in manufacturing activity was driven mainly by consumer goods producers in July, whilst the boom in exports was broad-based with more orders from Europe, East Asia, the Middle East and North America. There was also a slight pick-up in the Services PMI which rose to 53.8 in July from its June four month low of 53.4. On the other hand, activity in the construction sector dropped to an 11-month low. The dull outlook for the economy and the intensifying political uncertainty contributed to the UK Construction PMI falling to 51.9 from 54.8, which was much lower than markets had expected. Although construction only accounts for approximately 6% of the UK economic output, such figures still highlight a sector that is 'struggling to maintain momentum'. According to IHS Markit's Chief Business Economist, Chris Williamson, the manufacturing and services figures and the weak construction figures taken together suggest that the economy is growing at a steady, yet sluggish, quarterly rate of 0.3% - with demand dropping due to squeezed household budgets. British retail sales were also, as predicted, slower in July with consumers cutting back on purchases of most items other than food, further fuelling the worries about a fall in consumer demand.

The Consumer Price Index (CPI) unexpectedly remained unchanged in July at 2.6% due to a fall in fuel prices. There were signs that the squeeze on households' disposable income may be starting to level off as the rises in food prices, clothing and household goods were offset by a fall in fuel prices. Since the June referendum, Sterling has dropped 14% against a trade-weighted basket of major currencies leading the BoE to believe that this is the reason behind consumer-level inflation being above its 2 per cent target. Based on the BoE's previous experience with such a fall in Sterling at the beginning of the financial crisis, they expect CPI to remain above the 2% target for the next three years. Conversely, the inflation rate for raw materials dropped to 6.5% from 10% previously – the sharpest month-on-month drop since April 2012 and the lowest rate in a year.

The key dilemma facing the Bank of England's Monetary Policy Committee (MPC) in August was the tough balancing act between the anticipation of further increases in price pressures, due to the weakened pound, and declining consumer spending and inward investment. The background to the decision was inflation near a four year high, as Brexit took its toll on consumer spending power while growth was at its slowest pace since 2012. Despite some market speculation of a rate hike, the MPC voted 6-2 to keep the Bank Rate unchanged at 0.25%. As a result of the vote, the pound dropped by just under one cent against the dollar. BoE Governor, Mark Carney, did reiterate that the MPC may raise borrowing costs by slightly more than investors are currently forecasting over the next three years, or possibly within a year, thus hinting at a possible 2018 rate hike.

With regards to UK public finances, the UK posted its first budget surplus for any July since 2002 at £184 million compared to last year's deficit of £308 million (excluding state-controlled banks), with the figures being boosted by a 10% year-on-year rise in self-assessed tax payments.

Lethargic consumer demand, as a result of the weaker pound weighing in on spending power, also left the second estimate of Q2 GDP growth unrevised at 0.3% growth quarter-on-quarter and 1.7% growth year-on-year – the weakest start to any fiscal year since 2012. These figures are of stark contrast to last year where the UK economy was one of the fastest growing among the G7 nations. However, that growth was heavily reliant on robust consumer spending

which is currently wavering. Prior to this release in the latter stages of the month, the BoE had already trimmed its growth forecast for this year to 1.7% from 1.9% during its August MPC meeting.

The unemployment rate in the three months to the end of June dropped to 4.4%– the lowest since 1975. However, tepid wage growth figures present a challenge for the Government as households are feeling the pinch of rising prices. Although inflation has eased slightly since May, prices are still rising faster than wages with overall wage growth “in real terms” falling by 0.5%. In response to this, the BoE cut its forecast for wage growth in 2018 and 2019 to 3% and 3.25%, respectively.

On the other side of the pond, there were further signs of tightness in the US labour market as non-farm payrolls increased by 209,000 jobs. This was much more than had been expected. The figures provided further credence to the view that the Federal Reserve will soon announce details of how it will shrink its large bond portfolio accumulated through the financial crisis to support the economy. Additionally, the unemployment rate fell to 4.3% and the labour force participation rate rose to 62.9%. However, similar to the UK, wage growth still lagged with average hourly earnings increasing by 0.3% despite the economy being close to full employment. Nonetheless, US Q2 GDP growth was revised up to 3% annualised in the April-June period from 2.6% previously, reflecting adjustments for robust consumer spending and strong business investment. However, sluggish wage growth, relatively soft inflation and little signs of fiscal progress, still suggest that the Fed will delay raising rates again until December this year.

A little closer to home, Eurozone Q2 GDP grew by 0.6% on the quarter, while the annual GDP figure was revised upwards to 2.2%. Economic growth was strongest in the Netherlands and Latvia, with Spain’s economy also growing above average.

## Housing

Nationwide reported that house prices rose for a second month in a row in July by 0.3% to an average of £211,671. Although this was slower than June’s 1.1% jump, it was still greater than the figure a poll of economists had expected – a 0.1% drop in July. Halifax, conversely, reported slightly more pessimistic figures. The lender stated that house prices in the UK rose at their slowest rate in more than four years in the three months to July, as a consequence of the impact of inflation rising faster than wages. Halifax also reported that average house prices in the three months to July were 2.1% higher than a year earlier, down from a 2.6% increase in June’s figures and lower compared to the growth of more than 8% in July last year. The housing market has significantly slowed down since the referendum, when house prices were almost growing by 10% a year.

## Forecast

Neither Capita Asset Services (CAS) nor Capital Economics (CE) altered their forecasts this month. It is forecasted by CAS that a rate hike to 0.50% will occur in Q2 2019 followed by a further hike to 0.75% in Q4 2019. CE expects a hike in the bank rate to occur in Q2 2018 to 0.50% with further hikes forecasted in Q4 2018 to 0.75% and in Q2 2019 to 1.00%.

Bank Rate	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.50%	0.50%

# City Of London Corporation

## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	10,000,000	0.19%		MMF	AAA	0.000%
MMF Deutsche	12,500,000	0.20%		MMF	AAA	0.000%
MMF Federated Investors (UK)	5,000,000	0.54%		MMF	AAA	0.000%
MMF Federated Investors (UK)	20,400,000	0.21%		MMF	AAA	0.000%
MMF Invesco	57,400,000	0.25%		MMF	AAA	0.000%
Lloyds Bank Plc	5,800,000	0.20%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.91%		USDBF	AAA	0.000%
Santander UK Plc	100,000,000	0.60%		Call	A	0.000%
MMF Standard Life	5,000,000	0.67%		MMF	AAA	0.000%
MMF Standard Life	21,700,000	0.22%		MMF	AAA	0.000%
Kingston Upon Hull City Council	5,000,000	0.37%	01/06/2017	01/09/2017	AA	0.000%
Dundee City Council	5,000,000	0.37%	28/04/2017	06/09/2017	AA	0.000%
Leeds City Council	25,000,000	0.33%	16/06/2017	18/09/2017	AA	0.001%
Birmingham City Council	25,000,000	0.50%	24/04/2017	25/09/2017	AA	0.002%
North Lanarkshire Council	5,000,000	0.48%	24/02/2017	27/09/2017	AA	0.002%
Barclays Bank Plc	25,000,000	0.62%	03/04/2017	29/09/2017	A-	0.004%
Surrey County Council	25,000,000	0.35%	30/06/2017	29/09/2017	AA	0.002%
Lloyds Bank Plc	22,600,000	0.32%		Call32	A	0.005%
Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.005%
Barclays Bank Plc	36,000,000	0.74%	04/01/2017	04/10/2017	A-	0.005%
Lloyds Bank Plc	16,400,000	0.55%	04/04/2017	04/10/2017	A	0.005%
Suffolk County Council	5,000,000	0.48%	06/03/2017	06/10/2017	AA	0.002%
Lloyds Bank Plc	10,000,000	0.55%	12/04/2017	12/10/2017	A	0.006%
Australia and New Zealand Banking Group Ltd	5,000,000	0.34%	27/06/2017	27/10/2017	AA-	0.004%
Australia and New Zealand Banking Group Ltd	15,000,000	0.40%	03/05/2017	03/11/2017	AA-	0.004%
Lloyds Bank Plc	10,000,000	0.55%	03/05/2017	03/11/2017	A	0.010%
Coventry Building Society	20,000,000	0.45%	19/04/2017	12/12/2017	A	0.016%
Goldman Sachs International Bank	20,000,000	0.71%	22/06/2017	19/12/2017	A	0.017%
Australia and New Zealand Banking Group Ltd	5,000,000	0.40%	03/07/2017	03/01/2018	AA-	0.008%
Lloyds Bank Plc	18,000,000	0.65%	03/05/2017	05/02/2018	A	0.024%
Lloyds Bank Plc	21,400,000	0.39%	12/07/2017	12/02/2018	A	0.025%
Nationwide Building Society	11,100,000	0.33%	10/08/2017	12/02/2018	A	0.025%
Lloyds Bank Plc	9,400,000	0.65%	17/05/2017	19/02/2018	A	0.027%
Goldman Sachs International Bank	10,000,000	0.75%	01/06/2017	01/03/2018	A	0.028%
Nationwide Building Society	25,000,000	0.40%	26/07/2017	12/03/2018	A	0.030%
Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A-	0.032%



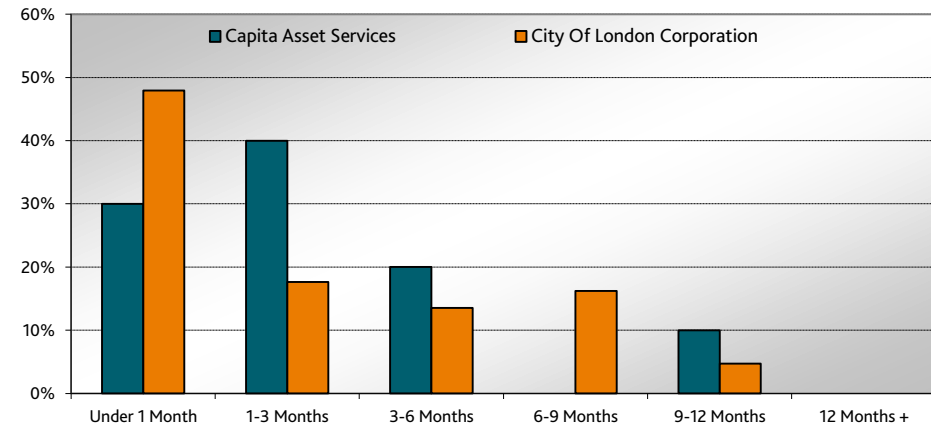
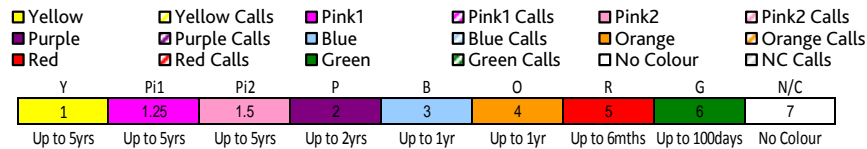
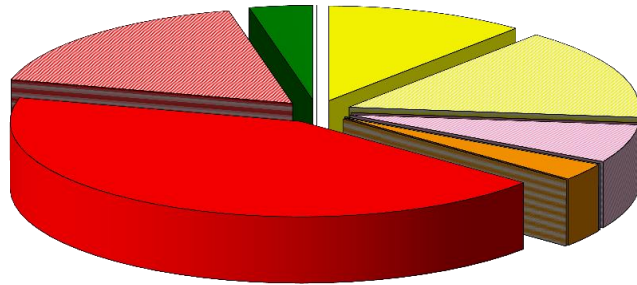
## City Of London Corporation

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.033%
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.109%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A-	0.037%
Leeds Building Society	2,000,000	0.37%	16/08/2017	16/05/2018	A-	0.040%
Nationwide Building Society	13,800,000	0.37%	16/08/2017	16/05/2018	A	0.040%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.040%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.047%
Goldman Sachs International Bank	20,000,000	0.95%		Call365	A	0.056%
<b>Total Investments</b>	<b>£850,500,000</b>	<b>0.57%</b>				0.014%

## City Of London Corporation

### Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.71

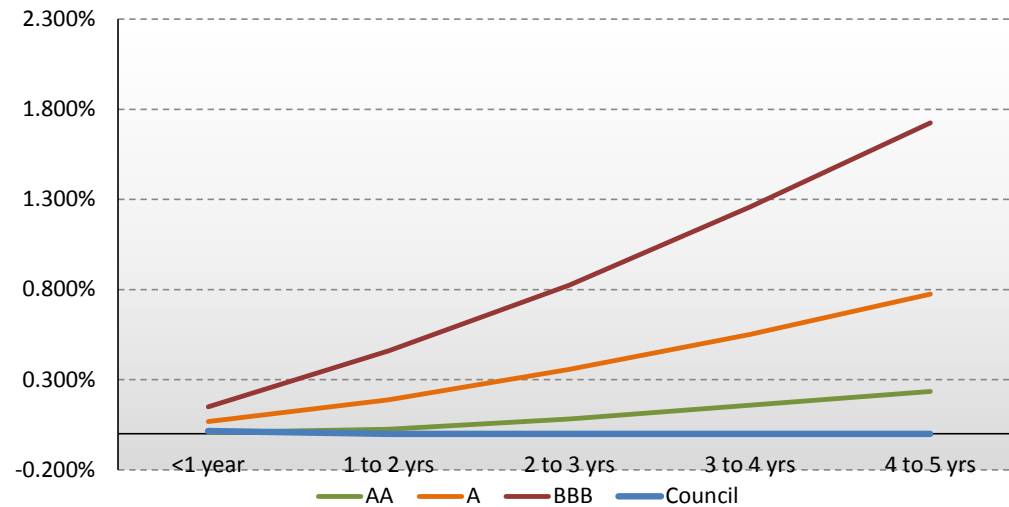
WARoR = Weighted Average Rate of Return

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/USDBFs	
									WAM	WAM at Execution
Yellow	26.69%	£227,000,000	58.15%	£132,000,000	15.52%	0.32%	9	52	23	124
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.47%	£55,000,000	100.00%	£55,000,000	6.47%	0.91%	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	2.94%	£25,000,000	0.00%	£0	0.00%	0.39%	75	172	75	172
Red	60.38%	£513,500,000	28.90%	£148,400,000	17.45%	0.65%	116	208	141	271
Green	3.53%	£30,000,000	0.00%	£0	0.00%	0.67%	231	335	231	335
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£850,500,000</b>	<b>39.44%</b>	<b>£335,400,000</b>	<b>39.44%</b>	<b>0.57%</b>	<b>83</b>	<b>156</b>	<b>121</b>	<b>243</b>

## Investment Risk and Rating Exposure

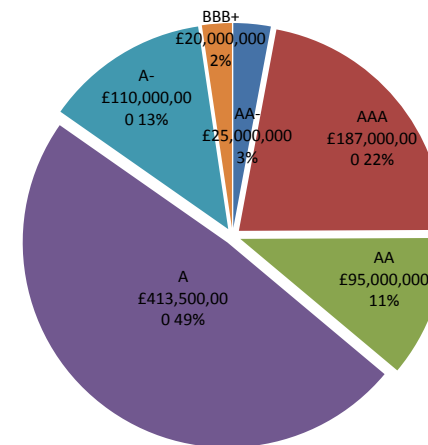
Investment Risk Vs. Rating Categories



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	0.015%	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
29/08/2017	1546	Qatar Sovereign	Qatar	Downgraded to 'AA-' from 'AA', removed from Negative Watch and placed on Negative Outlook

## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/08/2017	1542	Abbey National Treasury Services Plc	UK	Long Term Rating was affirmed at 'Aa3'; Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'
02/08/2017	1542	Bank of Scotland Plc	UK	Long Term Rating was removed from Stable Outlook and placed on Positive Watch. Short Term Rating was affirmed at 'P-1'
02/08/2017	1542	Lloyds Bank Plc	UK	Long Term Rating was removed from Stable Outlook and placed on Positive Watch. Short Term Rating was affirmed at 'P-1'
02/08/2017	1542	Santander UK Plc	UK	Long Term Rating was affirmed at 'Aa3', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'
17/08/2017	1545	Danske Bank	Denmark	Long Term Rating was upgraded to 'Aa3' from 'A1', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'P-1'

## City Of London Corporation

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
29/08/2017	1547	Qatar Sovereign	Qatar	Affirmed at 'AA-', removed from Negative Watch and placed on Negative Outlook

**MONTHLY INVESTMENT REVIEW AS AT 31 AUGUST 2017**

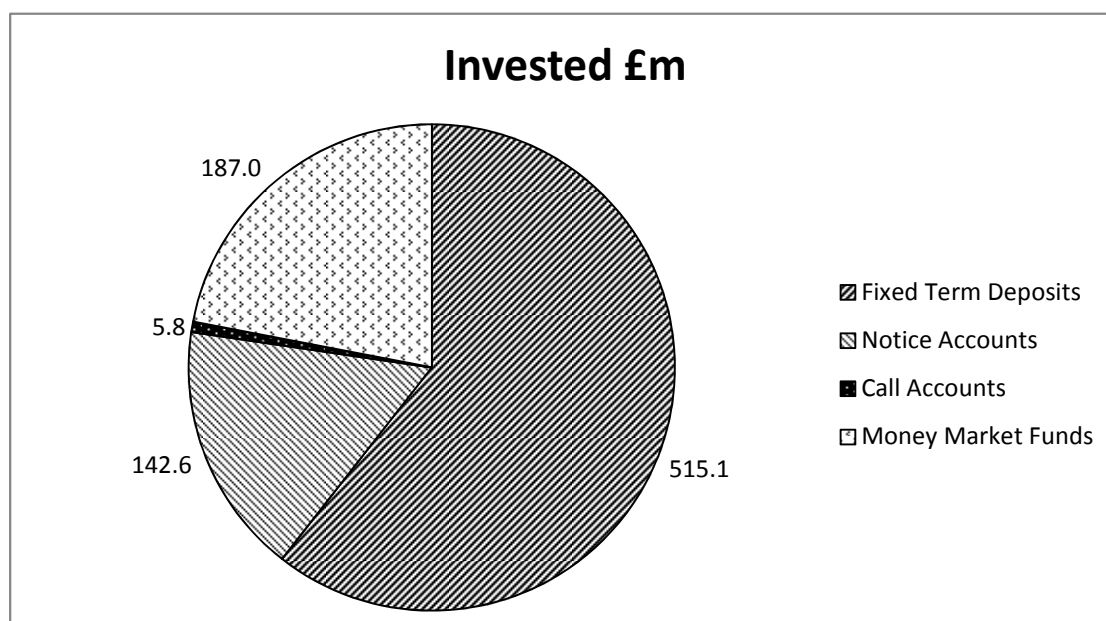
	<b>Couterparty Limit</b>	<b>Total Invested as at 31-Aug-17</b>	<b>Average Rate of Return</b>
	<b>£M</b>	<b>£M</b>	<b>%</b>
<b><u>TOTAL INVESTED</u></b>		<b><u>795.5</u></b>	<b><u>0.57%</u></b>
<b>UK BANKS</b>			
Barclays	100.0	100.0	0.75%
Goldman Sachs International	100.0	100.0	0.87%
HSBC	100.0	-	-
Lloyds	150.0	143.6	0.59%
RBS	100.0	-	-
	<u>550.0</u>	<u>343.6</u>	
<b>BUILDING SOCIETIES</b>			
Coventry	20.0	20.0	0.45%
Leeds	20.0	10.0	0.46%
Nationwide	120.0	49.9	0.38%
Skipton	20.0	20.0	0.77%
Yorkshire	20.0	-	-
	<u>200.0</u>	<u>99.9</u>	
<b>FOREIGN BANKS</b>			
Australia & New Zealand	25.0	25.0	0.39%
National Australia Bank	25.0	-	-
Svenska Handelsbanken	25.0	-	-
	<u>75.0</u>	<u>25.0</u>	
<b>LIQUIDITY FUNDS</b>			
Aberdeen Liquidity Fund	100.0	-	-
CCLA - Public Sector Deposit Fund	100.0	10.0	0.19%
Deutsche Global Liquidity Fund	100.0	12.5	0.20%
Federated Prime Liquidity Fund	100.0	25.4	0.27%
Invesco Sterling Liquidity Fund	100.0	57.4	0.25%
Standard Life (Ignis) Liquidity Fund	100.0	26.7	0.30%
	<u>500.0</u>	<u>132.0</u>	
<b>ULTRA SHORT DATED BOND FUNDS</b>			
Payden Sterling Reserve Fund	100.0	55.0	0.91%
	<u>100.0</u>	<u>55.0</u>	
<b>NOTICE ACCOUNTS</b>			
Santander 95 Days Account	100.0	100.0	0.60%
	<u>100.0</u>	<u>100.0</u>	
<b>PUBLIC SECTOR</b>			
Birmingham City Council	25.0	25.0	0.50%
Dundee City Council	25.0	5.0	0.37%
Kingston Upon Hull City Council	25.0	5.0	0.37%
Leeds City Council	25.0	25.0	0.33%
North Lanarkshire Council	25.0	5.0	0.48%
Suffolk County Council	25.0	5.0	0.48%
Surrey County Council	25.0	25.0	0.35%
	<u>800.0</u>	<u>95.0</u>	

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**MONTH BY MONTH REPAYMENT PROFILE**

		<b>Invested as at 31-Aug-17 £M</b>	<b>Average Rate of Return %</b>
<b>Total</b>		<b><u>850.5</u></b>	<b><u>0.57%</u></b>
<b>Fixed Term Deposits</b>			
Sep-17		115.0	
Oct-17		102.4	
Nov-17		25.0	
Dec-17		40.0	
Jan-18		5.0	
Feb-18		59.9	
Mar-18		60.0	
Apr-18		42.0	
May-18		45.8	
Jun-18		-	
Jul-18		20.0	
Sep-18			
Oct-18			
		<b><u>515.1</u></b>	<b>0.61%</b>
<b>Money Market Funds</b>			
- Same Day Access Constant NAV	122.0		
- Cash Enhanced Variable NAV	10.0		
- Ultra-Short Dated Bond Fund	<u>55.0</u>	187.0	0.45%
<b>Notice Accounts</b>			
- Goldman Sachs 370 Days	20.0		
- Santander 95 Days	100.0		
- Lloyds 32 Days	<u>22.6</u>	142.6	0.60%
<b>Call Accounts</b>			
- Lloyds Same Day Access		<u>5.8</u>	0.20%
		<b><u>335.4</u></b>	



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<b>Committee:</b>	<b>Date:</b>
Financial Investment Board	26 October 2017
<b>Subject:</b> End of Year Treasury Management Review 2016-17	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> Tom Broughton: Group Accountant – Pensions & Treasury Management	

## 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 an end of year report. The main points to note are as follows:

- As at 31 March 2017, the City had cash balances totalling some £768.9m. The majority of the balances are held for payment to third parties or are restricted reserves.
- The period was characterised by very low returns and the Bank of England base rate was cut on 4 August 2016, from 0.5% to 0.25%
- 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 in the process of selecting an Ultra Short Dated/Short Dated Bond Fund as an additional mandate 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 2016/17. 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 2016/17 was approved by the Financial Investment Board (4 February 2016), Finance Committee (16 February 2016) and the Court of Common Council (3 March 2016). During 2016/17 the Financial Investment Board received investment analysis reports at each Board meeting.

### Overall Treasury Position as at 31 March 2017

3. At the beginning and the end of 2016/17 the City's treasury position was as follows:

<b>Table 1</b>	<b>31/03/16 Principal £m</b>	<b>Rate/ Return %</b>	<b>Average Life Yrs</b>	<b>31/03/17 Principal £m</b>	<b>Rate/ Return %</b>	<b>Average Life Yrs</b>
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		
<b>Gross debt</b>	<b>0</b>			<b>0</b>		
<b>Total investments</b>	<b>858.8</b>	<b>0.67</b>	<b>1</b>	<b>768.9</b>	<b>0.60</b>	<b>1</b>
<b>Net Investments</b>	<b>858.8</b>	<b>0.67</b>	<b>1</b>	<b>768.9</b>	<b>0.60</b>	<b>1</b>

### The Strategy for 2016/17

4. The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising base rate, (starting in quarter 1 2017), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5. Following the UK's decision to leave the European Union on 23 June 2016 and the Bank of England's subsequent decision to reduce the base rate from 0.5% to 0.25%, on 4 August this expectation was modified to a stable base rate of 0.25% for the remainder of 2016/17. At time of writing money markets appear to have priced in an uplift in base rate at November 2017 MPC meeting but officers remain cautious.
6. There were no changes to the Strategy during 2016/17.

### **The Borrowing Requirement and Debt**

7. No capital borrowing was required during 2016/17

### **Investment Rates in 2016/17**

8. After the EU referendum, the base rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

### **Investment Outturn for 2016/17**

9. **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.).
10. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.
11. **Investments held by the City** - the City maintained an average balance of £975.2m of internally managed funds. The internally managed funds earned an average rate of return of 0.60% as at 31 March 2017, a significant uplift on the base rate of 0.25% which remained for more than half the financial year (4 August 2016 to 31 March 2017). This was also ahead of the forecasted return for 2016/17 (0.5%).

### **Conclusion**

12. The year was characterised by continuing low levels of return as the Bank of England base rate reduced to 0.25% (from 0.5%) and the subsequent comparable fall in rates offered across the counterparty list for all money market funds and fixed term deposit durations. Cash balances decreased from £858.8m

at the start of the year to £768.9m at by 31 March 2017 following the settlement of £200m to HM Treasury as part of the City's contribution to Crossrail In conjunction with Capita Asset Services, the City's Treasury Management advisors, your officers are in the process of selecting an Ultra Short Dated/Short Dated Bond Fund as an additional mandate for its cash balances.

## **Appendices**

### Appendix 1 – Treasury Indicators

#### **Tom Broughton**

Group Accountant – Pensions & Treasury Management

T: 020 7332 1137

E: [Tom.Broughton@cityoflondon.gov.uk](mailto:Tom.Broughton@cityoflondon.gov.uk)

**Appendix 1:****Treasury Indicators**

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

<b>TABLE 2: Maturity structure of fixed rate borrowing during 2016/17</b>	<b>upper limit</b>	<b>lower limit</b>
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%

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