



Financial Investment Board

Date: THURSDAY, 20 SEPTEMBER 2018
Time: 1.45 pm
Venue: COMMITTEE ROOMS - WEST WING, GUILDHALL

Members: Andrew McMurtrie (Chairman)
Nicholas Bensted-Smith (Deputy Chairman)
Henry Colthurst
Deputy Tom Hoffman
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

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N.B. Part of this meeting may be subject to audio-visual recording.

Lunch will be served in the Guildhall Club at 1.00pm.

**John Barradell
Town Clerk**

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 12 July 2018.
4. **OUTSTANDING ACTIONS**
Report of the Town Clerk
5. **MONTHLY INVESTMENT ANALYSIS**
Report of the Chamberlain
6. **END OF YEAR TREASURY MANAGEMENT REVIEW 2017/18**
Report of the Chamberlain
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
(Pages 1 - 4)

For Information
(Pages 5 - 6)

For Information
(Pages 7 - 22)

For Information
(Pages 23 - 28)

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 12 July 2018.
- For Decision**
(Pages 29 - 32)
11. **NON-PUBLIC OUTSTANDING ACTIONS**
Report of the Town Clerk
- For Information**
(Pages 33 - 34)
12. **INVESTMENT MONITORING REPORTS**
Report of the Chamberlain
- a) **Investment Monitoring to 30 June 2018**
Report of the Chamberlain
- For Information**
(Pages 35 - 62)
- b) **Quarterly Monitoring Report**
Report of Mercer
- For Information**
(Pages 63 - 82)
13. **MULTI ASSET MANAGER SEARCH**
Verbal Update
- For Decision**
14. **GLOBAL MANAGER SEARCH - CITY'S CASH AND BRIDGE HOUSE ESTATES**
Report of the Chamberlain and Mercer
- For Decision**
(Pages 83 - 108)
15. **ESG UPDATE REPORT**
Report of the Chamberlain and Mercer
- For Decision**
(Pages 109 - 120)
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

Thursday, 12 July 2018

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

Present

Members:

Andrew McMurtrie (Chairman)	Deputy Jamie Ingham Clark
Nicholas Bensted-Smith (Deputy Chairman)	Deputy Henry Pollard Ian Seaton
Henry Colthurst	
Alderman Robert Howard	

Officers:

Joseph Anstee	- Town Clerk's Department
Tom Broughton	- Chamberlain's Department
Kate Limna	- Chamberlain's Department
Catrina Arbuckle	- Mercer

1. APOLOGIES

Apologies for absence were received from Deputy Tom Hoffman, Deputy Clare James, Tim Levene, Andrien Meyers, James de Sausmarez and Deputy Philip Woodhouse.

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 24 May 2018 be agreed as a correct record.

Following a Member query, the Chamberlain was asked to resend the briefing note on local authority lending.

4. OUTSTANDING ACTIONS

The Board was advised that Treasury Management training would be scheduled for Financial Investment Board and Finance Committee Members after the summer recess. The training would be important if the City of London Corporation decided to borrow in the future.

RESOLVED – That the report be noted.

5. **MONTHLY INVESTMENT ANALYSIS REVIEW**

The Board received a report of the Chamberlain concerning the monthly investment analysis review for May 2018. The Board noted the current investment list and total investment values set out in the report, which now included the two short dated bond funds. Members noted that the Board had the option to consider further investment in short dated bond funds in the autumn if appropriate. The Board was advised that funds could be drawn down from the short dated bond funds relatively quickly if necessary.

The Board noted an error in the report wherein an investment had been attributed an average rate of return of 0.0%, which would be corrected.

RESOLVED – That the report be noted.

6. **ESG AND THE DRAFT STATEMENT OF COMMITMENT TO THE UK STEWARDSHIP CODE**

The Board considered a report of the Chamberlain providing an update on points raised by Members following a presentation from colleagues at Principles of Responsible Investment (PRI), and on the advice/comments received from the Financial Reporting Council (FRC) following the submission of a draft Statement of Commitment to the UK Stewardship Code.

The Board was advised that following the previous meeting, the Chamberlain had spoken with PRI regarding reputational risk, and the outcome of these discussions were set out in the report. The City of London Corporation, if signing up, would voluntarily report in the first year, and in subsequent years would be required to report, but would not be required to publish PRI feedback on the report.

The Statement of Commitment to the UK Stewardship Code was presented to the Board for re-approval following advice and comments from the FRC. If approved, the statement would be submitted for formal assessment. The aim was to be awarded Tier 1 status, and the Board was asked to delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman to agree any further changes necessary to achieve Tier 1 status.

The Board was advised by Mercer that the strands of work the Corporation had already undertaken would put them in a strong position to receive a positive end of year report. Members noted that the Corporation did not have to sign up immediately, but there was appetite for the Corporation to take the lead in this area and set an example. The first year would be the most burdensome, but reporting would become easier to manage once the process for doing so was set up following the first year. Mercer would be able to provide assistance in the process, such as by reviewing fund managers and writing to managers who were less compliant. It was noted that Mercer would undertake an annual assessment of the stewardship activities of the City's equity and multi-asset managers which would be published on the Corporation's website by virtue of it being reported to the Financial Investment Board as a public report, but could be promoted more widely if this was desired.

RESOLVED – That the Financial Investment Board:

- i. Agree the revised Statement of Commitment to the UK Stewardship Code (the Statement) and for Mercer to submit it to the FRC for formal assessment;
- ii. Confirm their agreement to progress the City’s application to PRI; and
- iii. Agree to delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman to agree any further changes to the Statement, in the event the FRC do not assess it at Tier 1.

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 - 17	3
18 - 19	-

10. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING

RESOLVED - That the non-public minutes of the meeting held on 24 May 2018 be agreed as a correct record.

11. NON-PUBLIC OUTSTANDING ACTIONS

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

12. INVESTMENT PERFORMANCE MONITORING TO 31 MAY 2018

The Board received a report of the Chamberlain.

13. MULTI ASSET MANAGER SEARCH - CITY'S CASH AND BRIDGE HOUSE ESTATES

The Board considered a report of the Chamberlain and Mercer.

14. PENSION FUND - LCIV GLOBAL FUND MANAGERS

The Board considered a report of the Chamberlain.

15. EQUITY PORTFOLIO MANAGER STRUCTURE REVIEW

The Board considered a report of the Chamberlain and Mercer.

16. SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2018

The Board considered a report of the Chamberlain.

17. HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT MONITORING TO 31 MARCH 2018

The Board considered a report of the Chamberlain.

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

There were no non-public questions.

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

There were three items of other business.

The meeting closed at 2.50 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.	1 February 2018	Board Member Training	Corporate Treasurer / Town Clerk	Likely to be in November	Training session by Link Asset Services to be arranged for Board Members

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City Of London Corporation

Monthly Investment Analysis Review

July 2018

Monthly Economic Summary

General Economy

The data releases for the month began with June's Markit/CIPS Manufacturing PMI, maintained its headline balance of 54.4. The sector continues to show a stronger performance after a slow Q1, but was expected to be slightly healthier. Construction PMI, however, maintained its recovery from the dent caused by the Beast from the East by increasing from 52.5 to 53.1 in June - but worries about Brexit have caused some projects to be put on hold. Services PMI also showed the economy's slow Q1 was temporary as the rise in the headline business activity index rose far above expectations from 54.0 to 55.1, well above the forecast of 54.0. This provided further evidence that the economy's slow start to 2018 was only temporary and can be predominantly chalked up to the weather. Furthermore, the surveys suggest that solid growth in the services sector should be sustained in the coming months.

British consumer price inflation (CPI) was lower than expected in June, holding at 2.4% despite forecasts of 2.6%. This is despite the rises in fuel and utility prices, offset by a fall in the core rate to 1.9%. Oil prices should eventually fall back down later in the year, and CPI should also fall as the impact of a weaker pound continues to wane.

June's public finances figures were strong overall; the deficit in June stood at £5.39bn, compared with £6.24bn a year ago, however a Reuters poll had predicted £5bn this time around. As of this financial year, the deficit stands at £16.8bn, 24.4% lower than for the same period in 2017, but it must be noted that early in the financial year it is difficult to draw many reliable conclusions. Public debt, excluding nationalised banks, stood at £1.792trn, 85.2% of GDP. This is down from 86.2% in June, but still double the figure from before the crisis.

The final reading of first quarter GDP growth saw an upward revision to 0.2% from initial estimates of 0.1%, following underlying revisions to construction output.. The yearly figure for GDP growth up to May was 1.5%. Moreover, May's monthly GDP also showed a strong 0.3%, up from April's 0.2%. and evidencing further that the Q1 weather-induced figures are behind us.

July's data also showed that British workers' wages rose at the slowest rate in six months during the three month period to May, despite our continually decreasing unemployment rate. Unemployment may be lower than ever at 4.2%, but average weekly earnings rose by just 2.5% in said three month period, down from 2.6% in the previous period, and pay growth excluding bonuses slowed to 2.7%.

Q2's retail sales growth grew by the most it has since the first quarter of 2004. Despite retail sales in June alone were down by 0.5% from May; however the quarterly figure was 2.1% higher than the first quarter. June's figure can be said to be poor partly because of the World Cup keeping people out of the shops. The figures as a whole contrast with relatively soft wage and inflation data, and the ONS said the strong retail sector data would probably add 0.1% to Q2 GDP growth.

Over in the Eurozone, Q2 GDP lagged lower than expected at just 0.3% compared to forecasts of 0.4%, and the Y/Y figure came in at 2.1% Y/Y. These are only preliminary figures but the data points to a slight slowdown in the Eurozone, which is not good for both the bloc itself and its trading partners. The ECB held its interest rates at 0% still, remaining at a -0.4% deposit rate as well, with Mario Draghi implying that a rate rise is likely towards the end of the next year, as the single currency's economy is still too fragile to accommodate a rate rise yet. Inflation went slightly up to 2.1% for July, and the unemployment rate very marginally decreased to 8.3%, a level which the EU will still not be comfortable with.

In the USA, unemployment stayed at a low level, but slightly rose to 4% from 3.8%, with non-farm payrolls decreasing to 213,000. President Trump will certainly be extremely happy with US GDP, hitting 4.1% in Q2, compared to 2% previously, a massive increase.

Housing

Nationwide revealed that house prices rose by 2.5% y/y in July, up by 0.5%. On a monthly basis, house prices rose by 0.6%, well ahead of a 0.2% Reuters poll. Nationwide continue to expect house prices to rise by around one per cent over the course of 2018, but acknowledge it will depend on the broader economic conditions, particularly subdued economic activity and ongoing pressure on household spending and real wages.

Currency

Sterling opened the month at \$1.316 against the US Dollar and closed the month at \$1.312. Against the Euro, Sterling opened at €1.131 and closed at €1.123.

Forecast

Neither Link Asset Services (LAS) nor Capital Economics made changes to their bank rate forecasts during July. LAS suggests that the next interest rate rise will be to 0.75% in the final quarter of this year, with further rises of 25 basis points in Q3 2019, Q2 2020 and Q4 2020. Capital Economics expect the next rate rise to 0.75% will be in August, with further rises of 25 basis points in Q4 2018, Q2 2019, Q4 2019 and Q4 2020.

Bank Rate												
	NOW	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.50%	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.50%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.50%	1.75%	-

City Of London Corporation

Current Investment List

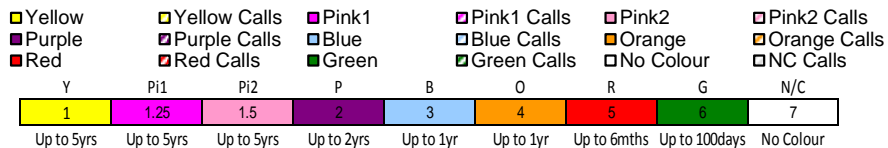
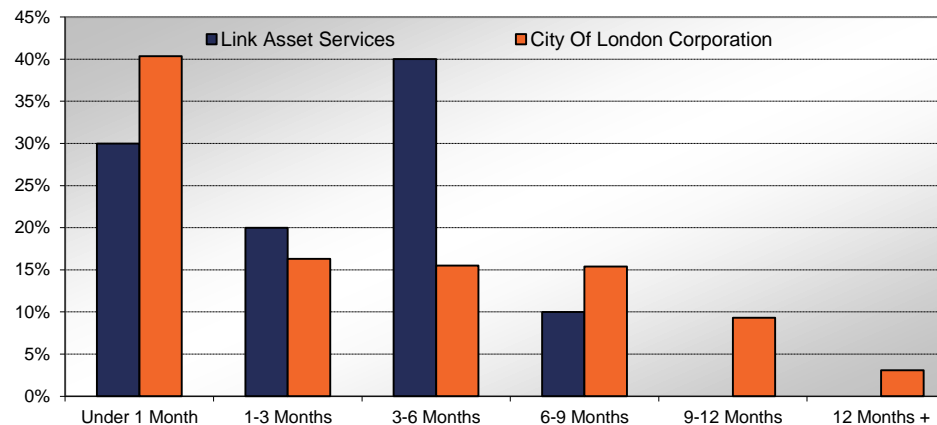
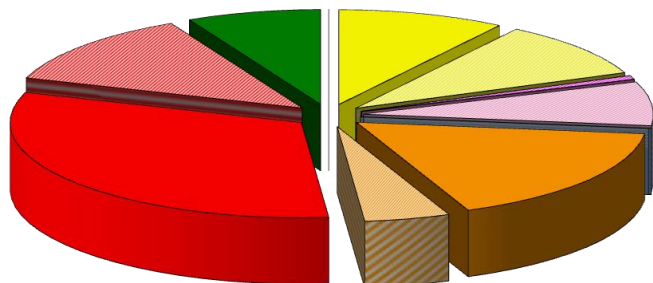
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	10,000,000	0.56%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.47%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	12,900,000	0.57%		MMF	AAA	0.000%
MMF Invesco	43,800,000	0.56%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	15,600,000	0.40%		Call	A+	0.000%
Lloyds Bank Plc (RFB)	22,600,000	0.57%		Call	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.29%		USDBF	AAA	0.000%
Santander UK Plc	100,000,000	0.60%		Call	A	0.000%
USDBF Standard Life Short Duration Cash Fund	5,000,000	0.50%		USDBF	AAA	0.000%
MMF Standard Life	10,300,000	0.56%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	15,000,000	0.75%	03/11/2017	03/08/2018	A+	0.000%
Birmingham City Council	20,000,000	0.77%	27/04/2018	17/08/2018	AA	0.001%
Nationwide Building Society	10,000,000	0.70%	20/04/2018	20/08/2018	A	0.003%
Barclays Bank Plc (NRFB)	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.009%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.009%
Australia and New Zealand Banking Group Ltd	15,000,000	0.60%	03/01/2018	03/10/2018	AA-	0.004%
Barclays Bank Plc (NRFB)	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.009%
Nationwide Building Society	25,000,000	0.70%	13/07/2018	22/10/2018	A	0.012%
Lloyds Bank Plc (RFB)	10,500,000	0.65%	23/04/2018	23/10/2018	A+	0.012%
National Australia Bank Ltd	10,000,000	0.81%	04/04/2018	05/11/2018	AA-	0.007%
Leeds Building Society	10,000,000	0.64%	07/06/2018	07/11/2018	A-	0.015%
Lloyds Bank Plc (RFB)	15,000,000	0.75%	01/06/2018	03/12/2018	A+	0.018%
National Australia Bank Ltd	15,000,000	0.84%	04/04/2018	18/12/2018	AA-	0.009%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.023%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.024%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	02/05/2018	23/01/2019	A+	0.026%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.012%
Barclays Bank Plc (NRFB)	14,000,000	0.93%	25/04/2018	01/02/2019	A	0.027%
Goldman Sachs International Bank	15,000,000	1.01%	18/05/2018	18/02/2019	A	0.030%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	0.016%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	0.036%
Skipton Building Society	20,000,000	1.00%	23/04/2018	18/04/2019	BBB+	0.113%
Yorkshire Building Society	20,000,000	0.88%	27/04/2018	26/04/2019	A-	0.040%
Barclays Bank Plc (NRFB)	25,000,000	1.07%	17/04/2018	01/05/2019	A	0.040%
Leeds Building Society	10,000,000	0.86%	16/05/2018	16/05/2019	A-	0.043%

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Goldman Sachs International Bank	15,000,000	1.13%	18/05/2018	18/05/2019	A	0.043%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	08/06/2018	10/06/2019	A+	0.046%
Goldman Sachs International Bank	20,000,000	1.12%	02/07/2018	02/07/2019	A	0.050%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	13/07/2018	15/07/2019	A+	0.052%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	0.028%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	0.031%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G UTM CLIENT ACC (UTM)	50,000,000	0.29%				
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	0.63%				
Total Investments	£905,700,000	0.72%				
Total Investments - excluding Funds	£805,700,000	0.75%				0.017%
Total Investments - Funds Only	£100,000,000	0.46%				

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.82**

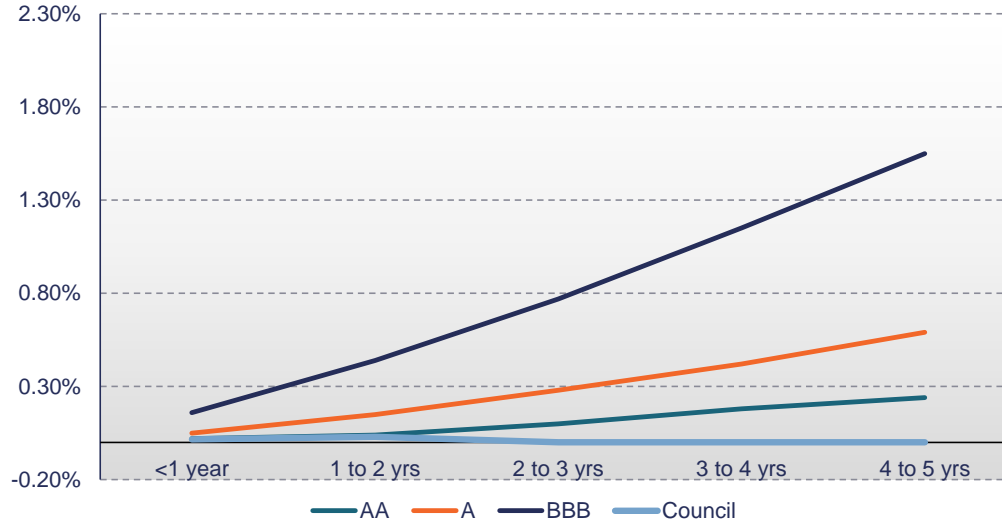
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	18.87%	£152,000,000	50.66%	£77,000,000	9.56%	0.75%	108	169	218	343
Pink1	0.62%	£5,000,000	100.00%	£5,000,000	0.62%	0.50%	0	0	0	0
Pink2	7.45%	£60,000,000	100.00%	£60,000,000	7.45%	0.31%	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	21.56%	£173,700,000	21.99%	£38,200,000	4.74%	0.74%	137	227	175	291
Red	44.06%	£355,000,000	28.17%	£100,000,000	12.41%	0.82%	111	231	155	321
Green	7.45%	£60,000,000	0.00%	£0	0.00%	0.88%	241	328	241	328
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£805,700,000	34.78%	£280,200,000	34.78%	0.75%	117	207	179	317

City Of London Corporation

Investment Risk and Rating Exposure

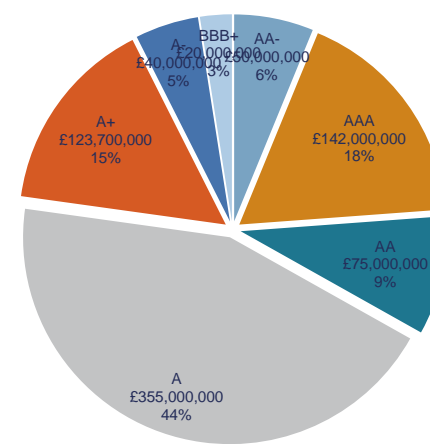
Investment Risk Vs. Rating Categories



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	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.016%	0.030%	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
09/07/2018	1626	ING Bank N.V.	Netherlands	Outlook on the Long Term Rating changed to Positive from Stable

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/07/2018	1625	Credit Agricole Corporate and Investment Bank	France	Outlook on the Long Term Rating changed to Positive from Stable
06/07/2018	1625	Credit Agricole S.A.	France	Outlook on the Long Term Rating changed to Positive from Stable
16/07/2018	1627	Qatar Sovereign	Qatar	Outlook on the Sovereign Rating changed to Stable from Negative
16/07/2018	1628	Qatar Natonal Bank	Qatar	Outlook on the Long Term Rating changed to Stable from Negative
17/07/2018	1629	NatWest Markets Plc (NRFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
17/07/2018	1629	National Westminster Bank PLC (RFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
17/07/2018	1629	National Westminster Bank PLC (RFB)	UK	Long Term Rating upgraded to 'Baa2' from 'Baa3', Outlook changed to Positive from Stable. Short Term Rating upgraded to 'P-2' from 'P-3'
17/07/2018	1629	The Royal Bank of Scotland Plc (RFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
17/07/2018	1630	Bank of Montreal	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Bank of Nova Scotia	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Canadian Imperial Bank of Commerce	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	National Bank of Canada	Canada	Long Term Rating upgraded to 'Aa3' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Royal Bank of Canada	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Toronto-Dominion Bank	Canada	Long Term Rating upgraded to 'Aa1' from 'Aa2', Outlook changed to Stable from Negative

City Of London Corporation

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
05/07/2018	1624	BNP Paribas France	France	Outlook on the Long Term Rating changed to Positive from Stable
05/07/2018	1624	BNP Paribas Fortis	Belgium	Outlook on the Long Term Rating changed to Positive from Stable
31/07/2018	1631	KBC Bank N.V.	Belgium	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Colour based on Ratings changed to 'Orange' from 'Red'

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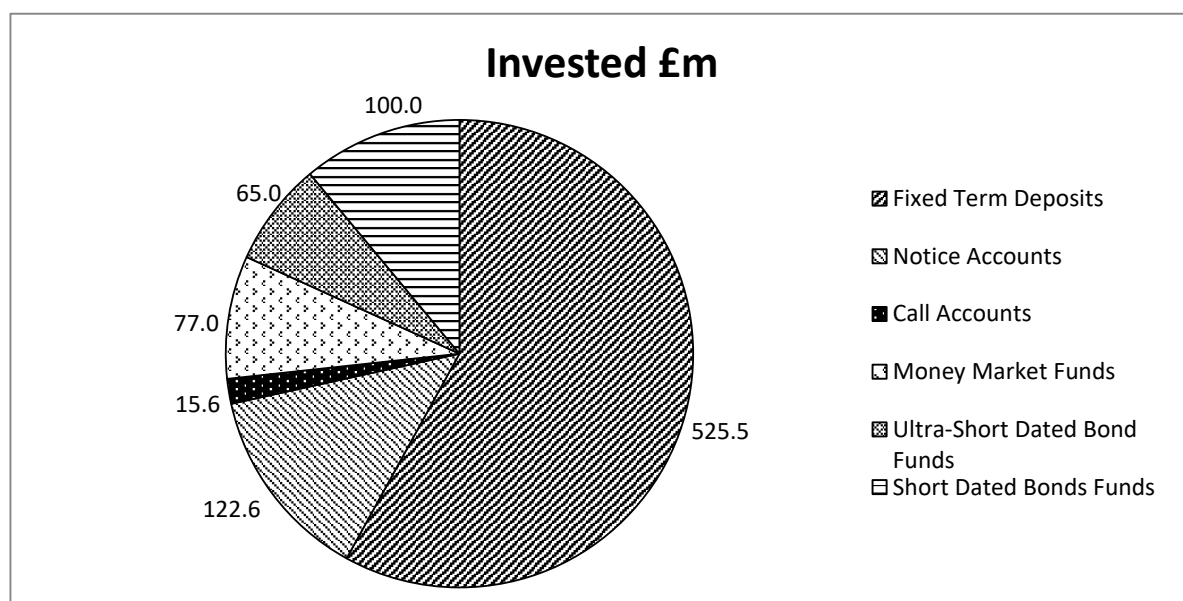
MONTHLY INVESTMENT REVIEW AS AT 31 JULY 2018

	Couterparty Limit £M	Total Invested as at 31-Jul-18 £M	Weighted Average Rate of Return %
<u>TOTAL INVESTED</u>		<u>905.7</u>	<u>0.72%</u>
 <u>UK BANKS</u>			
Barclays	100.0	100.0	0.87%
Goldman Sachs International	100.0	100.0	1.04%
HSBC	100.0	-	-
Lloyds	150.0	123.7	0.80%
RBS	100.0	-	-
		<u>323.7</u>	
 <u>BUILDING SOCIETIES</u>			
Coventry	20.0	20.0	0.70%
Leeds	20.0	20.0	0.75%
Nationwide	120.0	35.0	0.70%
Skipton	20.0	20.0	1.00%
Yorkshire	20.0	20.0	0.88%
		<u>115.0</u>	
 <u>FOREIGN BANKS</u>			
Australia & New Zealand	25.0	25.0	0.78%
National Australia Bank	25.0	25.0	0.82%
Svenska Handelsbanken	25.0	-	-
		<u>50.0</u>	
 <u>LIQUIDITY FUNDS</u>			
Aberdeen Liquidity Fund	100.0	-	-
CCLA - Public Sector Deposit Fund	100.0	10.0	0.56%
Deutsche Global Liquidity Fund	100.0	-	-
Federated Prime Liquidity Fund*	100.0	17.9	0.57%
Invesco Sterling Liquidity Fund	100.0	43.8	0.56%
Standard Life (Ignis) Liquidity Fund*	100.0	15.3	0.56%
		<u>87.0</u>	
 <u>ULTRA SHORT DATED BOND FUNDS</u>			
Payden Sterling Reserve Fund	100.0	55.0	0.29%
Federated Sterling Cash Plus Fund*	100.0	5.0	0.47%
Standard Life Short Duration Fund*	100.0	5.0	0.50%
		<u>55.0</u>	
 <u>SHORT DATED BOND FUNDS</u>			
L&G	100.0	50.0	0.29%
Royal London	100.0	50.0	0.63%
		<u>100.0</u>	
 <u>NOTICE ACCOUNTS</u>			
Santander 95 Days Account	100.0	100.0	0.60%
		<u>100.0</u>	
 <u>PUBLIC SECTOR</u>			
Birmingham City	25.0	20.0	0.77%
Lancashire CC	25.0	15.0	1.27%
Northamptonshire CC	25.0	20.0	0.73%
LB Southwark	25.0	20.0	1.10%
		<u>75.0</u>	
<u>TOTAL</u>		<u>905.70</u>	

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MONTH BY MONTH REPAYMENT PROFILE

	Invested as at 31-Jul-18 £M	Weighted Average Rate of Return %
Total	<u>905.7</u>	<u>0.72%</u>
Fixed Term Deposits		
Aug-18	70.0	
Sep-18	25.0	
Oct-18	81.5	
Nov-18	20.0	
Dec-18	30.0	
Jan-19	75.0	
Feb-19	29.0	
Mar-19	30.0	
Apr-19	40.0	
May-19	50.0	
Jun-19	15.0	
Jul-19	35.0	
Oct-19	10.0	
Dec-19	15.0	
	<u>525.5</u>	0.84%
Money Market Funds	77.0	0.56%
Ultra-Short Dated Bond Fund	65.0	0.32%
Short-Dated Bond Fund	100.0	0.46%
Notice Accounts		
- Santander 95 Days	100.0	
- Lloyds 32 Days	<u>22.6</u>	
	122.6	0.59%
Call Accounts		
- Lloyds Same Day Access	15.6	0.40%
	<u>380.2</u>	



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Agenda Item 6

Committee: Financial Investment Board Audit and Risk Management	Date: 20 September 2018 6 November 2018
Subject: End of Year Treasury Management Review 2017/18	Public
Report of: The Chamberlain	For Information
Report author: Kate Limna – Corporate Treasurer	

Summary

The Treasury Management Strategy Statement for 2017/18 was approved by the Financial Investment Board and the Finance Committee in February 2017 and by the Court of Common Council on 9 March 2017.

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 2018, the City had treasury balances totalling some £790.5m. The majority of the balances are held for payment to third parties or are restricted reserves.
- The period was characterised by very low returns with the Bank of England base rate remaining at 0.25% until 2 November 2017 when it was increased to 0.5%.
- The investment strategy during the year conformed to the approved strategy and there were no liquidity difficulties.
- Following a review of treasury balances, £100m was invested into two short dated bond funds.
- Under MiFID II, the City successfully opted up to professional status with all relevant counterparties and consultants

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 2017/18. 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 2017/18 was approved by the Financial Investment Board (2 February 2017), Finance Committee (21 February 2017) and the Court of Common Council (8 March 2017). During 2017/18 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2018

3. At the beginning and the end of 2017/18 the City's treasury position was as follows:

Table 1	31/03/17 Principal £m	Rate/ Return %	Average Life Yrs	31/03/18 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	768.9	0.60	1	790.5	0.52	1
Net Investments	768.9	0.60	1	790.5	0.52	1

The Strategy for 2017/18

4. The expectation for interest rates within the treasury management strategy for 2017/18 anticipated low but rising base rate, and that Bank Base Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5. The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.
6. There were no changes to the Strategy during 2017/18.
7. During the year and following a review of the treasury balances held by the City of London, the City's treasury advisors, Link Asset Services (Link) were commissioned to look at alternative investment options taking into consideration the City's forecasted expenditure at that time, over the coming years. Most options required a long term time horizon of at least five years and were not considered to be suitable. However there was potentially scope to invest some £100m for up to 3 years in a mixture of short-dated/ultra-short dated bond funds.
8. Link reviewed what funds were available in the short-dated/ultra-short dated bond funds arena and following consultation with the Chairman and Deputy Chairman, it was agreed to invest a total of £100m in two short dated bond funds (Legal & General and Royal London).
9. The 2017/18 Strategy did not specifically allow investment in short dated bond funds. It was agreed that this should be included in the 2018/19 Strategy and this was approved by the Court of Common Council on 8 March 2018. The Court also agreed that the 2018/19 Strategy could take effect immediately and £50 million was invested in each short dated bond fund before 31 March 2018.

The Borrowing Requirement and Debt

10. No capital borrowing was required during 2017/18. However, going forward it is highly likely that the City will need to borrow to fund some of its projects such as the Museum of London in the near future and this will result in changes to the Strategy.

Investment Rates in 2017/18

11. Investment rates for 3 months and longer had been on a rising trend during the second half of the year in the expectation of Bank Base Rate increasing from its floor of 0.25%. The Bank Base Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. Further increases are expected over the next few years and the MPC increased the Bank Base Rate to 0.75% on 2 August 2018. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

Investment Outturn for 2017/18

12. **Investment Policy** – the City's investment policy is governed by MHCLG 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 8 March 2017. 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.).

13. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.
14. **Investments held by the City** - the City maintained an average balance of £873.4m of internally managed funds. The internally managed funds earned an average rate of return of 0.52% as at 31 March 2018, a significant uplift on the base rate of 0.25% which remained for more than half the financial year (1 April 2017 to 2 November 2017). This was also ahead of the forecasted return for 2017/18 (0.5%).

Markets in Financial Instruments Directive II (MiFID II)

15. The EU's regulatory reforms, known as MiFID II, came into effect across Europe on 3 January 2018. It is designed to offer greater protection for all investor and covers virtually all aspects of trading within the EU reaching across the financial services industry from banks to institutional investors, brokers and hedge funds.
16. MiFID II affected all local authorities in two capacities – as the administering authority for the Pension Fund and for their treasury management function - and they would be treated as “retail clients” unless they were opted up by individual institutions to an “elective professional client” status. The opt up process included both a qualitative and quantitative test that was assessed by the individual institutions and the criteria applied separately to the local authorities depending on the capacity in which they are acting – either as treasury manager or pensions administrator. The decision to opt up a local authority lay solely with the institution to whom the application was made
17. In its role as treasury manager, the City have been opted up to professional status with its treasury management advisor (Link Asset Services) and each institution dealing with us apart from for cash deposits with banks and building societies.

Conclusion

18. The year was characterised by continuing low levels of return although the Bank Base Rate was increased from 0.25% to 0.5% on 2 November 2017 the Bank of England base rate reduced to 0.25% (from 0.5%) and deposit rates continued at previous depressed levels. £100m was invested in two short dated bond funds, and the City successfully opted up with all relevant counterparties and advisors for MiFID II.

Appendices

Appendix 1 – Treasury Indicators

Kate Limna

Corporate Treasurer

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Appendix 1

Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2017/18
	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	£300m	£300m	£300m
(per maturity date)			

TABLE 2: Maturity structure of fixed rate borrowing during 2017/18	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%

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