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CITY OF LONDON

Financial Investment Board

Date: THURSDAY, 22 NOVEMBER 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

Enquiries: **Joseph Anstee**
tel. no.: 020 7332 1480
joseph.anstee@cityoflondon.gov.uk

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 20 September 2018.

   For Decision
   (Pages 1 - 4)

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

   For Information
   (Pages 5 - 6)

5. **MONTHLY INVESTMENT ANALYSIS**
   Report of the Chamberlain

   For Information
   (Pages 7 - 22)

6. **MID-YEAR TREASURY MANAGEMENT REVIEW 2018/19**
   Report of the Chamberlain

   For Information
   (Pages 23 - 30)

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 20 September 2018.

For Decision
(Pages 31 - 36)

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

For Information
(Pages 37 - 38)

12. **INVESTMENT MONITORING REPORTS**

a) **Investment Monitoring to 30 September 2018**
Report of the Chamberlain

For Information
(Pages 39 - 62)

b) **Quarterly Monitoring Report**
Report of Mercer

For Information
(Pages 63 - 82)

13. **GLOBAL EQUITY MANAGER SEARCH - VERBAL UPDATE**
The Chamberlain to be heard.

For Decision

14. **BRIDGE HOUSE ESTATES STRATEGIC REVIEW - UPDATE**
Report of the Town Clerk & Chief Executive and the Chief Grants Officer & Director of City Bridge Trust

For Decision
(Pages 83 - 94)

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

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

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FINANCIAL INVESTMENT BOARD

Thursday, 20 September 2018

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)
Henry Colthurst
Deputy Tom Hoffman
Alderman Robert Howard
Tim Levene
Andrien Meyers
Deputy Henry Pollard
James de Sausmarez

Officers:

Joseph Anstee	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Kate Limna	-	Chamberlain's Department
Catrina Arbuckle	-	Mercer

1. **APOLOGIES**
   Apologies for absence were received from Deputy Jamie Ingham Clark, Deputy Clare James, Ian Seaton 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 12 July 2018 be agreed as a correct record.

4. **OUTSTANDING ACTIONS**
   The Chamberlain advised that a date for Member training was still being identified and it was hoped a session could be arranged for early December.

   RESOLVED – That the report be noted.

5. **MONTHLY INVESTMENT ANALYSIS**
   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. Members noted that the yield listed in relation to the two short dated bond funds was likely understated as the historic figure, looking at the previous 12 months, was given

rather than the current figure. This was likely to be higher at present because of the recent increase to the base interest rate.

A Member queried the totals given under Ultra Short Dated Bond Funds as they appeared not to be correct. The Chamberlain responded that this was as two of the funds had been counted elsewhere but would look at how this could be shown on the chart as it was not clear.

A Member asked if there was a target number looking forward for the weighted average rate of return. The Chamberlain responded that there was an estimate for the current year of 50 basis points, and revised estimates would be calculated soon. The estimated weighted average rate of return did not form part of the Treasury Management Strategy as a performance indicator, although it contributed to budget plans as these were partly based on assumed income.

RESOLVED – That the report be noted.

6. **END OF YEAR TREASURY MANAGEMENT REVIEW 2017/18**

The Board received a report of the Chamberlain, providing an end of year report reviewing Treasury Management in 2017/18. The Chamberlain introduced the report and set out the main points as highlighted in the report summary.

RESOLVED – That the report be noted.

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

There were no questions.

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

There was no other business.

9. **EXCLUSION OF THE PUBLIC**

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

Item No.	**Paragraph(s) in Schedule 12A**
10 – 15	3
16 – 17	-

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

RESOLVED - That the non-public minutes of the meeting held on 12 July 2018 be agreed as a correct record.

11. **NON-PUBLIC OUTSTANDING ACTIONS**

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

12. **INVESTMENT MONITORING REPORTS**

a) **Investment Monitoring to 30 June 2018** and
b) **Quarterly Monitoring Report**

The Board received reports of the Chamberlain and of Mercer.

13. **MULTI ASSET MANAGER SEARCH**
The Board considered a report of the Chamberlain.

14. **GLOBAL MANAGER SEARCH - CITY'S CASH AND BRIDGE HOUSE ESTATES**
The Board considered a report of the Chamberlain.

15. **ESG UPDATE REPORT**
The Board considered a report of the Chamberlain.

16. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were two non-public questions.

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

The meeting closed at 2.55 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	To be updated at the Board meeting	Training session by Link Asset Services to be arranged for Board Members

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Agenda Item 5

City Of London Corporation

Monthly Investment Analysis Review

October 2018

General Economy

The data releases for the month began with September's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw an increase from the previous revised figure of 53.0, to a stronger 53.8. Conversely, Construction PMI took another hit, as it went down to 52.1 from 52.9, lower than the 52.5 predicted. Service sector activity also fell, from 54.3 to 53.9. The report did show signs of steady growth, but hindered slightly by Brexit uncertainty.

The British summer surge turned out to be stronger than expected as hot weather spurred consumer spending. While data from the Office for National Statistics showed no growth on the month, it revealed that the economy expanded 0.7% during the 3 months to August. In year on year terms growth slowed to 1.5% from 1.7% in July.

In terms of the UK's trade balance the overall deficit decreased to £9.97bn, a drop of nearly £2bn. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade.
Unemployment remained at 4% for September, in line with forecasts and still at the lowest level since 1975. The basic wages of workers rose at their fastest pace in nearly a decade over the summer months, backing the Bank of England's view that a long period of weak pay increases is ending. The 3M y/y figure was 2.7% including bonuses and excluding bonuses, earnings rose by 3.1%. Although unemployment held at its four-decade low, the number of people in work fell by 5,000, the first decrease in nearly a year.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold Bank Rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for September fell more than expected, with the Consumer Price Index (CPI) y/y at 2.4%, down from the six month high of 2.7% in August. The ONS said that food prices, particularly meat and chocolate, represented the biggest drag on September's inflation rate. The monthly CPI figure was 0.1%, down from 0.7%, while Core CPI y/y fell to 1.9% from 2.1% previously. Meanwhile, factory gate producer price output gains were stronger than forecast, coming in at 3.1% y/y, on the back of a 0.4% m/m increase. Input price inflation accelerated to 10.3% y/y.

A free spending summer by British consumers came to an abrupt end last month with the biggest fall in sales in six months. Retail sales fell by a larger than expected 0.8% m/m in September, but the August gain was revised higher to 0.4%. British retailers have experienced mixed fortunes this month. While groceries have remained robust, a shift away from high street spending towards holiday and entertainment has taken its toll on clothing and homeware who lack an online presence.

In terms of public finances, Britain recorded a smaller than expected budget deficit in September. Public sector net borrowing, excluding banks, fell to £4.123bn, from the revised figure of £5.623bn, and the figure including banks also fell from last month's figure to £3.259bn. The shrinking of the UK budget gap provided additional leeway for Chancellor Hammond to provide a net giveaway in his Autumn budget. However, some of the surplus was held back by the Chancellor to potentially provide support to the economy in the event of a "No deal" Brexit.

The Eurozone's Q2 y/y GDP figure was revised higher, to 2.2% from 2.1%. At the same time, data also showed a preliminary figure of 1.7% y/y growth for Q3, which was less than expected. Meanwhile, US GDP slowed less than expected in the third quarter. It increased at a 3.5% annualised rate, supported by inventory investment and solid government spending. Within the figures, data suggested that business spending has stalled and residential investment has now declined for three consecutive quarters. Analysts suggested that the figures showed signs that the boost from tax cuts is fading and higher interest rates are hurting the housing

Housing

The Halifax measure showed British house prices falling at the fastest pace since April. The lender reported that house prices fell 1.4% on the month in September, after a 0.2% fall in August. This was a bigger drop than forecast. The y/y measure showed a 2.5% increase, down from the previous month's gain of 3.7%.
Elsewhere, Nationwide reported a rise of 0.3% m/m on house prices in September from August when they had fallen 0.5%, whilst the

Currency

Sterling opened the month at $1.30 against the US Dollar and closed at $1.27, with a high of $1.32 during the period. Against the Euro, Sterling opened at €1.125 and closed at €1.122 peaking at €1.14 midway through the month.

Forecast

Link Asset Services suggests that the next interest rate rise will be to 1.00% in the second quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020 eventually reaching 2.00% in March 2022. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020 to 1.75%.

Bank Rate	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	**0.75%**	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	**0.75%**	0.75%	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
USDBF Aberdeen Standard Investments	5,000,000	0.58%		USDBF	AAA	0.000%
MMF CCLA	10,000,000	0.70%		MMF	AAA	0.000%
MMF Deutsche	51,700,000	0.70%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.60%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	47,600,000	0.70%		MMF	AAA	0.000%
MMF Invesco	75,100,000	0.73%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	15,600,000	0.65%		Call	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.44%		USDBF	AAA	0.000%
National Australia Bank Ltd	10,000,000	0.81%	04/04/2018	05/11/2018	AA-	0.000%
Leeds Building Society	10,000,000	0.64%	07/06/2018	07/11/2018	A-	0.001%
Nationwide Building Society	25,000,000	0.76%	16/08/2018	26/11/2018	A	0.004%
Lloyds Bank Plc (RFB)	22,600,000	0.75%		Call32	A+	0.005%
Lloyds Bank Plc (RFB)	15,000,000	0.75%	01/06/2018	03/12/2018	A+	0.005%
National Australia Bank Ltd	15,000,000	0.84%	04/04/2018	18/12/2018	AA-	0.003%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.009%
Nationwide Building Society	10,100,000	0.75%	04/09/2018	04/01/2019	A	0.010%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.010%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	02/05/2018	23/01/2019	A+	0.012%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.006%
Barclays Bank Plc (NRFB)	14,000,000	0.93%	25/04/2018	01/02/2019	A	0.014%
Santander UK Plc	20,000,000	0.90%		Call95	A	0.014%
Goldman Sachs International Bank	15,000,000	1.01%	18/05/2018	18/02/2019	A	0.016%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	0.010%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	0.022%
Skipton Building Society	20,000,000	1.00%	23/04/2018	18/04/2019	BBB+	0.073%
Yorkshire Building Society	20,000,000	0.88%	27/04/2018	26/04/2019	A-	0.026%
Santander UK Plc	30,000,000	1.00%		Call180	A	0.027%
Barclays Bank Plc (NRFB)	25,000,000	1.07%	17/04/2018	01/05/2019	A	0.027%
Leeds Building Society	10,000,000	0.86%	16/05/2018	16/05/2019	A-	0.029%
Goldman Sachs International Bank	15,000,000	1.13%	18/05/2018	18/05/2019	A	0.029%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	08/06/2018	10/06/2019	A+	0.033%
Goldman Sachs International Bank	20,000,000	1.12%	02/07/2018	02/07/2019	A	0.036%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	13/07/2018	15/07/2019	A+	0.038%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	0.023%
Santander UK Plc	50,000,000	1.15%		Call365	A	0.054%

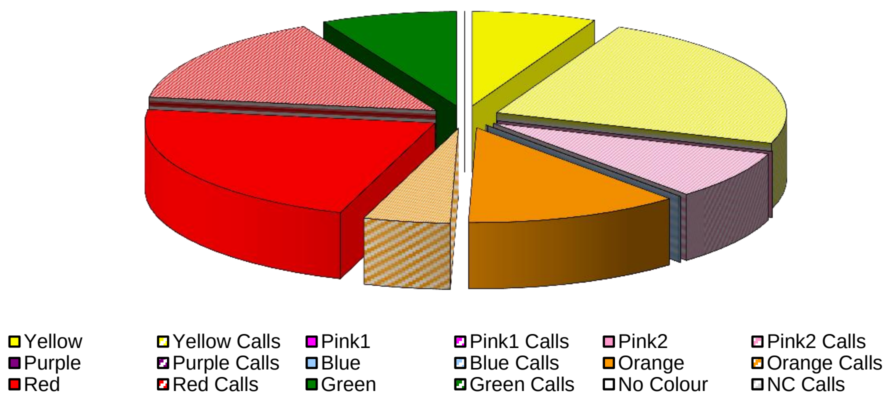
City Of London Corporation

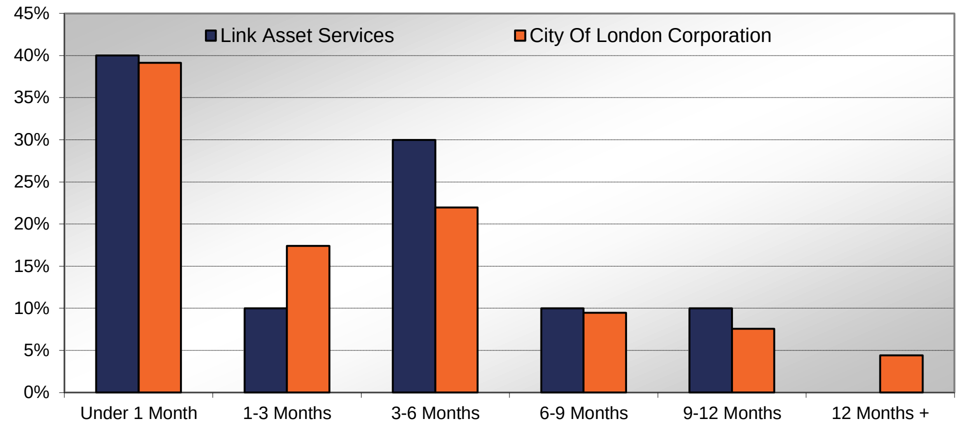
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Goldman Sachs International Bank	20,000,000	1.32%		Call370	A	0.055%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	0.027%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
L&G UTM CLIENT ACC (UTM)	50,000,000	0.58%				
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	0.82%				
Total Investments	**£891,700,000**	**0.84%**				0.014%
Total Investments - excluding Funds	**£791,700,000**	**0.85%**				0.016%
Total Investments - Funds Only	**£100,000,000**	**0.70%**				

City Of London Corporation

Portfolio Composition by Link Asset Services' Suggested Lending Criteria





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

Portfolios weighted average risk number = 3.41

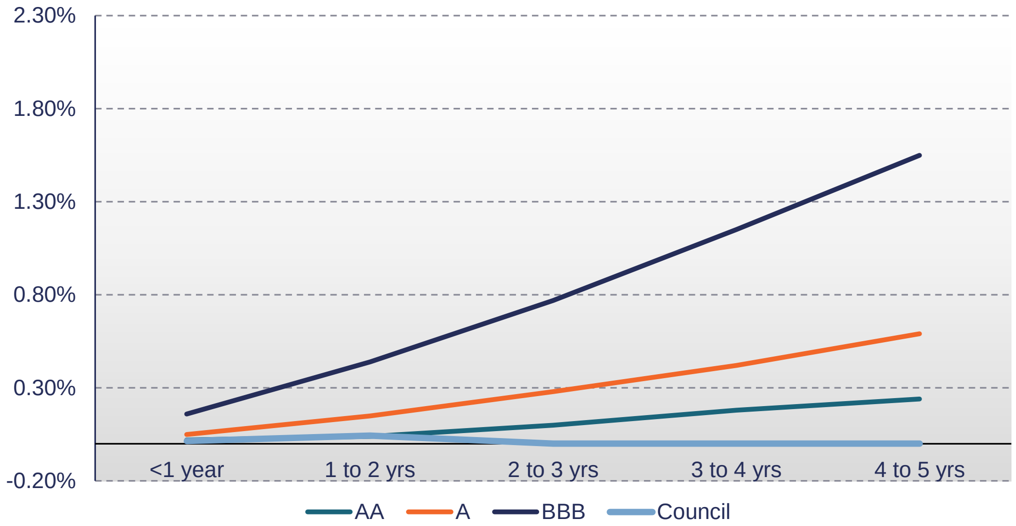
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	30.24%	£239,400,000	77.03%	£184,400,000	23.29%	0.78%	46	98	199	427
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	8.21%	£65,000,000	100.00%	£65,000,000	8.21%	0.46%	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	16.82%	£133,200,000	28.68%	£38,200,000	4.83%	0.82%	104	225	138	308
Red	37.15%	£294,100,000	40.80%	£120,000,000	15.16%	1.01%	183	290	119	301
Green	7.58%	£60,000,000	0.00%	£0	0.00%	0.88%	149	328	149	328
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£791,700,000**	**51.48%**	**£407,600,000**	**51.48%**	**0.85%**	**111**	**200**	**140**	**325**

City Of London Corporation

Investment Risk and Rating Exposure

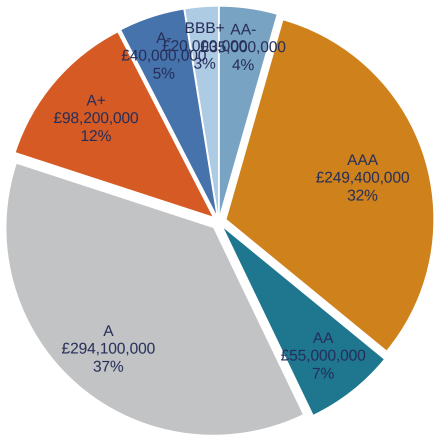
Investment Risk Vs. Rating Categories



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	0.015%	0.043%	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
23/10/2018	1647	Canadian Imperial Bank of Commerce	Canada	Outlook on the Long Term Rating changed to Stable from Negative.

City Of London Corporation

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
15/10/2018	1645	Danske A/S	Denmark	Long Term Rating downgraded to 'A2' from 'A1'
26/10/2018	1649	JPMorgan Chase Bank N.A.	United States	Long Term Rating upgraded to 'Aa1' from 'Aa2', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook
29/10/2018	1650	Nationwide Building Society	United Kingdom	Outlook on the Long Term Rating was changed to Negative from Stable

City Of London Corporation

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
22/10/2018	1646	Credit Agricole Corporate and Investment Bank	France	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Colour based on Rating & Watches/Outlooks changed to 'Orange' from 'Red'
22/10/2018	1646	Credit Agricole S.A.	France	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Colour based on Rating & Watches/Outlooks changed to 'Orange' from 'Red'
24/10/2018	1648	Societe Generale	France	Outlook on the Long Term Rating changed to Positive from Stable

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MONTHLY INVESTMENT REVIEW AS AT 31 OCTOBER 2018

	Couterparty Limit £M	Total Invested as at 31-Oct-18 £M	Average Rate of Return %
TOTAL INVESTED		**891.7**	**0.84%**
UK BANKS			
Barclays	100.0	39.0	1.02%
Goldman Sachs	100.0	80.0	1.12%
HSBC	100.0	-	-
Lloyds	150.0	75.6	0.79%
RBS	100.0	-	-
		194.6	
BUILDING SOCIETIES			
Coventry	20.0	20.0	0.70%
Leeds	20.0	20.0	0.75%
Nationwide	120.0	35.1	0.76%
Skipton	20.0	20.0	1.00%
Yorkshire	20.0	20.0	0.88%
		115.1	
FOREIGN BANKS			
Australia & New Zealand	25.0	10.0	1.05%
National Australia Bank	25.0	25.0	0.83%
Svenska Handelsbanken	25.0	-	-
		35.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	-	-
CCLA - Public Sector Deposit Fund	100.0	10.0	0.70%
Deutsche Global Liquidity Fund	100.0	51.7	0.70%
Federated Prime Liquidity Fund*	100.0	47.6	0.70%
Invesco Sterling Liquidity Fund	100.0	75.1	0.73%
Standard Life (Ignis) Liquidity Fund*	100.0	-	-
		184.4	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	55.0	0.44%
Aberdeen SLI Short Duration Fund*	100.0	5.0	0.58%
Federated Sterling Cash Plus Fund*	100.0	5.0	0.60%
Standard Life Short Duration Fund*	100.0	-	-
		65.0	
SHORT DATED BOND FUNDS			
L&G	100.0	50.0	0.58%
Royal London	100.0	50.0	0.82%
		100.0	
NOTICE ACCOUNTS			
Goldman Sachs 370 Days Account	100.0	20.0	1.12%
Lloyds 32 Days Account	100.0	22.6	0.75%
Santander 95 Days Account	100.0	20.0	0.90%
Santander 180 Days Account	100.0	30.0	1.00%
Santander 365 Days Account	100.0	50.0	1.15%
		142.6	
PUBLIC SECTOR			
Birmingham City	25.0	-	-
Lancashire CC	25.0	15.0	1.27%
Leeds City Council	25.0	-	-
Northamptonshire CC	25.0	20.0	0.73%
LB Southwark	25.0	20.0	1.10%
		55.0	
TOTAL		891.7	

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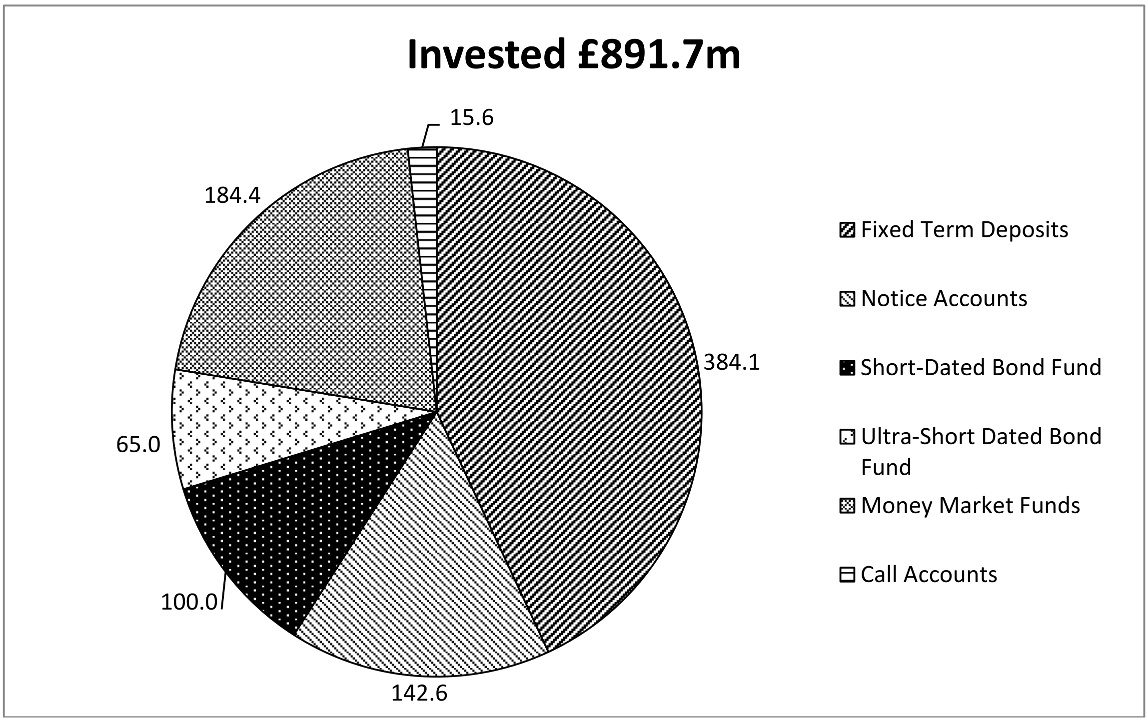
MONTH BY MONTH REPAYMENT PROFILE

		Invested as at 31-May-18 £M	Average Rate of Return %
Total		**891.7**	**0.84%**
Fixed Term Deposits			
Nov-18		45.0	
Dec-18		30.0	
Jan-19		85.1	
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	
		384.1	0.94%
Money Market Funds		184.4	0.71%
Ultra-Short Dated Bond Fund		65.0	0.46%
Short-Dated Bond Fund		100.0	0.70%
Notice Accounts			
- Goldman Sachs 370 Days	20.0		
- Santander 95 Days	20.0		
- Santander 180 Days	30.0		
- Santander 365 Days	50.0		
- Lloyds 32 Days	22.6	142.6	1.02%
Call Accounts			
- Lloyds Same Day Access		15.6	0.65%
		507.6	



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Committee:	Date:
Financial Investment Board Audit and Risk Management Committee	22 November 2018 15 January 2019
Subject: Mid-Year Treasury Management Review 2018-19	**Public**
Report of: The Chamberlain	**For Information**
Report author: James Graham – Chamberlain's Dept.	

Summary

The Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 was approved by the Financial Investment Board and the Finance Committee in February 2018 and by the Court of Common Council on 8 March 2018 and came into effect on 8 March 2018. This allowed the City to make investments of £50M each in two short dated bond funds (Legal & General and Royal London) before the end of the financial year.

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:

- As at 30 September 2018, the City had cash balances totalling £885.4m. Most of the balances are held for payment to third parties or are restricted reserves.
- No approved counterparty limits were breached during the first half of 2018/19 and the City has experienced no liquidity concerns.
- A total of £100M has been invested in two short dated bond funds
- There may be a requirement to undertake external borrowing on behalf of City's Cash during 2018/19 but this is under review. At this stage it is not anticipated that City Fund will require any external borrowing during the remainder of the financial year.

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 anticipates that there may be a requirement to undertake external borrowing on behalf of City's Cash for capital purposes 2018/19. The City does not at this stage anticipate any external borrowing in the remainder of 2018/19 in respect of the City Fund.

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 2017) 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 and Annual Investment Strategy for 2018/19 was approved by the Financial Investment Board (1 February 2018), the Finance Committee (20 February 2018) and the Court of Common Council (8 March 2018).

6. It came into effect on 8 March 2018 thus allowing the City to invest £50M each into two short dated bond funds, one with Legal & General and one with Royal London prior to the end of the financial year.

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 pace of increases to the Bank of England's base rate remains the key determinant driving returns in the UK sterling money markets. The Bank's Monetary Policy Committee increased interest rates from 0.5% to 0.75% at its meeting in August 2018, and the change has subsequently led to a marginal improvement in the

returns available on the City's treasury investments. However, interest rates remain at historic lows compared to the previous decade and this situation continues to depress the City's investment income.

8. The City held £885.4m of investments as at 30 September 2018 (£790.5m at 31 March 2018). Most of the balances are held for payment to third parties or are restricted reserves. The average rate of return on the City's treasury management portfolio at the end of September was 0.82%.

9. No approved counterparty limits were breached during the first half of 2018/19 and the City has experienced no liquidity concerns. The Treasury Management Strategy remains appropriate in enabling the City to pursue its prime objectives of security and liquidity, followed by yield.

Regulatory Guidance

10. The regulatory framework for treasury management in local government was updated in December 2017 and February 2018, with several key documents being revised including:

    - The Ministry of Housing, Communities and Local Government's Statutory Guidance on Local Government Investments (2018)
    - MHCLG's Statutory Guidance on Minimum Revenue Provision (2018)
    - The CIPFA Treasury Management Code of Practice (2017)
    - The CIFPA Prudential Code for Capital Finance (2017)

11. Local authorities must follow the statutory guidance in their first strategies presented to full Council after 1 April 2018 and comply with the CIPFA codes from 2019/20. Therefore, the City will adopt full compliance in the 2019/20 Treasury Management Strategy Statement and Annual Investment Strategy.

Borrowing Strategy

12. The City anticipates that there may be a requirement to undertake external borrowing on behalf of City's Cash for capital purposes in 2018/19 and proposals are currently under review. The City does not at this stage anticipate any external borrowing in the remainder of 2018/19 in respect of the City Fund.

Economic Review

13. A detailed commentary on the economy and interest rates as provided by Link Asset Services (the City's Treasury Management advisors) can be found at Appendix 1.

14. With the domestic economy developing broadly in line with the Bank of England's expectations in Q2, the Monetary Policy Committee voted unanimously to increase Bank Rate from 0.50% to 0.75% in August 2018. Although growth has been modest in 2018, the Bank has employed some policy tightening to manage

above target inflation. The Bank now expects GDP to grow by 1.3% for 2018 as a whole and 1.7% in 2019.

15. Following the MPC's November meeting, the City's treasury management advisors, Link, issued revised interest rate forecasts and now expect the Bank of England to increase base rates to 1.00% in May 2019 (previously August 2019). The MPC has repeatedly stated that any interest rate increases will be gradual. There remains uncertainty over the UK's withdrawal from the European Union and this, amongst other risks, could have an impact on the direction of any interest changes. A summary of salient risks to the forecast is included in Appendix 1.

Conclusion

16. The City has effectively executed the 2018/19 Treasury Management Strategy during the first six months of the year. The investment strategy remains appropriate for the second half of the year.

Appendices

Appendix 1 – Economy and Interest rates Commentary

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Commentary on the Economy and Interest Rates provided by Link Asset Services

Economics update

UK. The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.3% in 2018, the Bank of England's November Quarterly Inflation Report forecast that growth will pick up to 1.7% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to 2.1%, near the 2% inflation target, over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second quarter of 2019.

As for the **labour market,** unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest rate forecasts

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

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. However, in view of the hawkish stance of the MPC in November, we have moved forward our first increase in

Bank Rate from August 2019 to May 2019. The next increases then occur in February and November 2020 before ending up at 2.0% in February 2022. Financial markets are now expecting a first increase in February 2019 and then further increases only in February 2020 and then May 2021, to end 21/22 at only 1.50%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of

electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority eurozone governments.** Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit –** if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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