



Financial Investment Board

Date: TUESDAY, 17 SEPTEMBER 2019
Time: 1.45 pm
Venue: COMMITTEE ROOMS - WEST WING, GUILDHALL

Members: Nicholas Bensted-Smith (Chairman)
Henry Colthurst (Deputy Chairman)
Simon Duckworth
Alderman Robert Howard
Alderman Robert Hughes-Penney
Deputy Jamie Ingham Clark
Deputy Clare James
Tim Levene
Andrien Meyers
Deputy Henry Pollard
James de Sausmarez
Ian Seaton
Deputy Philip Woodhouse

Next Meetings: 29 November 2019 11 February 2020 3 June 2020

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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 3 July 2019.

For Decision
(Pages 1 - 4)
4. **MONTHLY INVESTMENT ANALYSIS**
Report of the Chamberlain

For Information
(Pages 5 - 20)
5. **END OF YEAR TREASURY MANAGEMENT REVIEW 2018/19**
Report of the Chamberlain

For Information
(Pages 21 - 26)
6. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
7. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
8. **EXCLUSION OF THE PUBLIC**
MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

For Decision

Part 2 - Non-Public Agenda

9. **PRESENTATION - LONDON CIV**
10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the non-public minutes of the meeting held on 3 July 2019.

For Decision
(Pages 27 - 32)

11. **NON-PUBLIC OUTSTANDING ACTIONS**

Report of the Town Clerk

For Information
(Pages 33 - 34)

12. **INVESTMENT MONITORING REPORT**

a) **Performance Monitoring to 31 July 2019: Pension Fund**

Report of the Chamberlain

For Information
(Pages 35 - 48)

b) **Performance Monitoring to 31 July 2019: City's Cash and Bridge House Estates**

Report of the Chamberlain

For Information
(Pages 49 - 70)

c) **Quarterly Monitoring Report Q2 2019**

Report of Mercer

For Information
(Pages 71 - 90)

13. **PRI ASSESSMENT UPDATE**

Report of the Chamberlain

For Information
(Pages 91 - 112)

14. **RESOLUTION FROM THE COMMITTEE OF ALDERMEN TO ADMINISTER THE SIR WILLIAM COXEN TRUST FUND**

To consider a resolution of the Committee of Alderman to Administer the Sir William Coxen Trust Fund.

For Decision
(Pages 113 - 114)

15. **NON-PUBLIC REPORT OF ACTION TAKEN**

Report of the Town Clerk

For Information
(Pages 115 - 116)

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

Wednesday, 3 July 2019

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

Present

Members:

Nicholas Bensted-Smith (Chairman)
Henry Colthurst (Deputy Chairman)
Alderman Robert Howard
Deputy Jamie Ingham Clark
Deputy Clare James

Tim Levene
Deputy Henry Pollard
James de Sausmarez
Deputy Philip Woodhouse

Also in attendance:

Deputy Tom Hoffman (Chief Commoner)

Officers:

Joseph Anstee	- Town Clerk's Department
Kate Limna	- Chamberlain's Department
James Graham	- Chamberlain's Department
Catrina Arbuckle	- Mercer

1. APOLOGIES

Apologies for absence were received from Simon Duckworth, Alderman Robert Hughes-Penney, Andrien Meyers and Ian Seaton.

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 20 May 2019 be agreed as a correct record.

4. OUTSTANDING ACTIONS

The Board received a list of outstanding actions and noted that all actions arising from the last meeting had been addressed.

RESOLVED – That the outstanding actions list be noted.

5. MONTHLY INVESTMENT ANALYSIS REVIEW

The Board received a report of the Chamberlain concerning the monthly investment analysis review for May 2019. The Board noted the current investment list, total investment values and average rate of return set out in the report, and was advised that the further investments of £25 million in each of

the short-dated bond funds were made on 5 June 2019 and would be reflected in the report as of the next meeting.

RESOLVED – That the report be noted.

6. **RISK REGISTER FOR FINANCIAL INVESTMENT BOARD**

The Board considered a report of the Chamberlain reviewing the Financial Investment Board's risk register. The Chamberlain introduced the report and advised the Board of amendments made to the risk register following the previous meeting, concerning asset pooling, cybersecurity and responsible investment. The Chamberlain advised of corrections on page 35 to the target risk rating and score where this did not appear in the table.

A Member asked the Board whether their targets could be more ambitious, given all but one current risk rating was currently at target, and whether the Board might consider producing a statement on risk appetite. The Chamberlain responded that identified risks were mitigated as much as possible, and risk and target would sometimes be similar. The Board could consider devising a statement on risk appetite, and as the risk register was managed by the Board, Members could make further changes if desired. The Chairman added that the nature of the Board's work meant that scores tended to be consistent.

In response to a query from a Member, the Chamberlain advised that cybersecurity was a major corporate risk, managed by the Audit and Risk Management Committee, and the risk managed by the Financial Investment Board was a smaller part of this general risk. Whilst the Board oversaw assets, there was a robust mitigation against impersonation or other fraud, as asset changes could not be made without committee approval and multiple signatories.

Members discussed whether the risk relating to Insufficient cash might need to be reviewed, in light of proposals for borrowing in the near future and the Fundamental Review. The Board then discussed responsible investment risk relating to Environmental, Social and Governance (ESG) factors, including how this was measured and distinctions within this category. A Member cited the example of Royal Dutch Shell, who had a good ESG rating as a company, but still might be considered an inappropriate investment, and asked whether these considerations were captured sufficiently, giving regard to public perception as well as the market. A Member suggested adding reference to ethical investment as part of the risk. Mercer advised that in their view carbon risk was incorporated within ESG, but the wording on the risk register could be changed to make this more explicit if desired.

The Chairman advised that this could be taken away for consideration. The Chamberlain added that officers could review this area and bring something back to a future meeting.

RESOLVED – That the Financial Investment Board note the amended risks and actions for the Financial Investment Board's revised Risk Register and confirm that appropriate control measures are in place.

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
10-16	3
17-18	-

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

RESOLVED - That the non-public minutes of the meeting held on 20 May 2019 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 Performance Monitoring to 31 March 2019** and
- b) **Quarterly Monitoring Report Q1 2019**

The Board received reports of the Chamberlain and Mercer.

13. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING TO 31 MARCH 2019**

The Board received a report of the Chamberlain.

14. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2019**

The Board considered a report of the Chamberlain.

15. **BHE: PART INVESTMENT OF THE PROCEEDS FROM THE SALE OF 1-5 LONDON WALL BUILDINGS - REQUEST FOR DELEGATED AUTHORITY**

The Board considered a report of the Chamberlain.

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

There were 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 were items of other business.

The meeting closed at 2.43 pm

Chairman

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City Of London Corporation

Monthly Investment Analysis Review

July 2019

Monthly Economic Summary

General Economy

July's economic data began with the June Markit/CIPS Manufacturing PMI figure falling to 48.0 from 49.2 the previous month. The production component contracted at the fastest pace since October 2012 and new orders dropped to a seven-year low, amid ongoing Brexit uncertainty and economic slowdown. The construction PMI, meanwhile, fell by 5.5 points to 43.1, as new orders for UK construction companies reached a ten-year low. Rounding off a gloomy set of activity surveys for June, the Services PMI retracted the previous month's gain, falling to 50.2 from 51.0, leaving the Composite figure at 49.7, indicating the economy had slightly contracted.

The UK trade deficit narrowed to £2.32bn in May 2019, falling from an upwardly revised £3.72bn the previous month. Exports rose 2.4% to £54.38bn, while imports declined 0.2% to £56.71bn. This was the smallest trade deficit since last September, as exports were boosted by fuels and machinery equipment. Meanwhile, data showed that the UK's economy grew 0.3% on average in the three months to May, slowing from an upwardly revised 0.4% expansion in the previous period. Both services and production sectors grew by 0.3% which contributed positively to the growth, while the construction sector stagnated.

Unemployment maintained its 3.8% rate in the three months to May, its lowest level since 1974, as the number of unemployed dropped by 51,000 to 1.29 million. Further data showed that the nominal employment figure increased by 28,000 to a record high of 32.75 million. The labour market's resilience (despite Brexit related uncertainty) was evident in wage growth data, which saw average earnings excluding bonuses rise 3.6% y/y from 3.4%, the fastest growth since 2008. Earnings including bonuses rose by 3.4% y/y from an upwardly revised 3.2%.

CPI inflation, on an annual basis, was in line with the Bank of England's 2% target in June. This was unchanged from the previous period and matched market expectations as the monthly rate dropped to 0.0% from 0.3% in May. The Core CPI figure (which strips out the more volatile components) increased to 1.8% from 1.7% in May.

Retail sales increased sharply by 1% m/m in June after a revised fall of -0.6% the previous month, with non-food stores providing the largest contribution to the growth (+1.7% in June). Year-on-year, retail sales rose by 3.8%, up from 2.2% in May. This has reversed the apparent declining trend witnessed in recent months.

British banks approved 66,440 mortgages for new house purchases in June 2019, up from the 65,647 revised figure reported for the previous month. In addition, approvals of loans secured on dwellings for remortgaging rose to 46,976 from 46,816 in May, while loans for other purposes registered a small decline, dropping to 14,717 from 14,740.

The Confederation for British Industry's monthly retail sales balance was -16, increasing from -42 a month earlier. Despite the improvement, this was the third consecutive month of negative retail sales, the longest period of decline since 2011. Although the index rose courtesy of a gain in grocery sales, this was not nearly enough to offset the decline in other sectors. Meanwhile, the GfK consumer confidence index also rose, to -11 this month from -13 in June.

The public finance figures showed a deficit of -£6.50bn in June, a surprisingly large difference compared to the figure for May of -£3.822bn. Excluding state-controlled banks, the deficit came in at £7.1bn, compared to £3.32bn a year ago and the highest

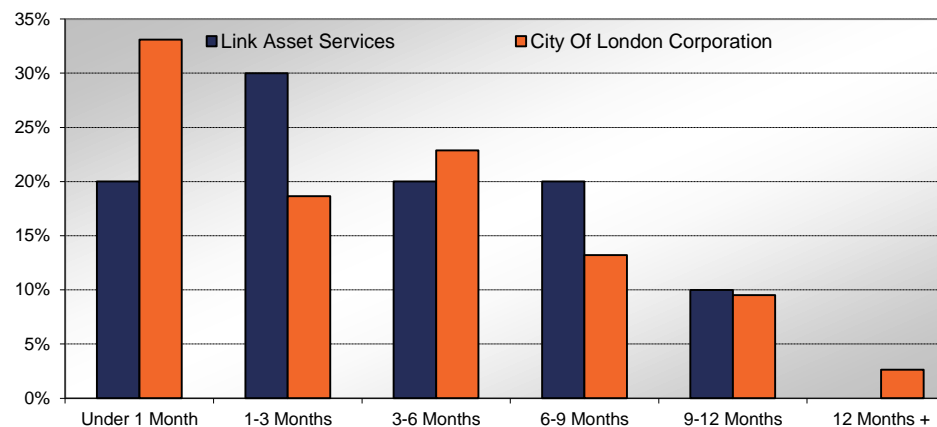
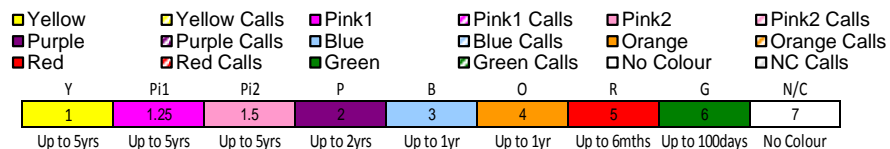
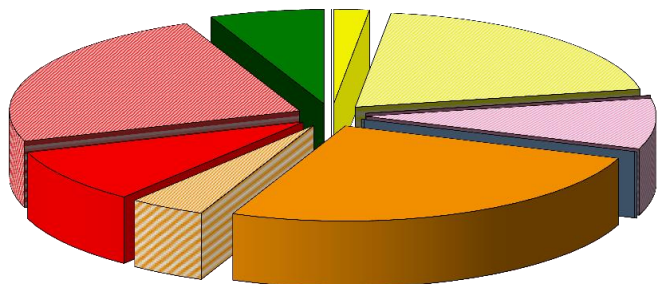
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Fitch Long Term Rating	Lowest Long Term Rating	Historic Risk of Default
USDBF Aberdeen Standard Investments	5,000,000	0.99%		USDBF	AAA	AAA	0.000%
MMF Aberdeen Standard Investments	29,500,000	0.74%		MMF	AAA	AAA	0.000%
MMF CCLA	10,000,000	0.74%		MMF	AAA	AAA	0.000%
MMF Deutsche	34,800,000	0.74%		MMF	AAA	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	1.11%		USDBF	AAA	AAA	0.000%
MMF Federated Investors (UK)	31,100,000	0.75%		MMF	AAA	AAA	0.000%
MMF Invesco	45,700,000	0.77%		MMF	AAA	AAA	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	1.19%		USDBF	AAA	AAA	0.000%
Lloyds Bank Plc (RFB)	9,400,000	0.65%		Call1	A+	A+	0.000%
Lloyds Bank Plc (RFB)	10,000,000	0.95%	28/03/2019	05/08/2019	A+	A+	0.001%
Lloyds Bank Plc (RFB)	15,000,000	0.95%	05/04/2019	05/08/2019	A+	A+	0.001%
Lloyds Bank Plc (RFB)	22,600,000	0.95%		Call32	A+	A+	0.005%
Leeds Building Society	8,400,000	0.89%	03/04/2019	03/09/2019	A-	A-	0.005%
Barclays Bank Plc (NRFB)	25,000,000	0.98%	04/04/2019	04/09/2019	A+	A	0.005%
Lloyds Bank Plc (RFB)	10,000,000	0.95%	12/06/2019	25/09/2019	A+	A+	0.008%
Lloyds Bank Plc (RFB)	10,000,000	1.00%	28/03/2019	30/09/2019	A+	A+	0.009%
Australia and New Zealand Banking Group Ltd	10,000,000	1.00%	02/04/2019	02/10/2019	AA-	AA-	0.004%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	AA-	0.005%
Australia and New Zealand Banking Group Ltd	20,000,000	1.01%	24/04/2019	24/10/2019	AA-	AA-	0.006%
Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/04/2019	29/10/2019	A+	A	0.013%
Santander UK Plc	20,000,000	0.90%		Call95	A+	A	0.014%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	08/05/2019	08/11/2019	A+	A+	0.014%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	21/05/2019	21/11/2019	A+	A+	0.016%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	AA	0.009%
Australia and New Zealand Banking Group Ltd	9,700,000	0.93%	25/06/2019	23/12/2019	AA-	AA-	0.010%
Australia and New Zealand Banking Group Ltd	15,000,000	1.09%	27/03/2019	27/12/2019	AA-	AA-	0.010%
Australia and New Zealand Banking Group Ltd	11,400,000	1.07%	02/04/2019	02/01/2020	AA-	AA-	0.010%
Santander UK Plc	30,000,000	1.00%		Call180	A+	A	0.026%
Yorkshire Building Society	20,000,000	1.15%	26/04/2019	27/01/2020	A-	A-	0.026%
Australia and New Zealand Banking Group Ltd	11,900,000	0.91%	29/07/2019	29/01/2020	AA-	AA-	0.012%
Goldman Sachs International Bank	20,000,000	1.00%		Call185	A	A	0.027%
Goldman Sachs International Bank	20,000,000	0.99%		Call185	A	A	0.027%
Coventry Building Society	20,000,000	1.00%	16/05/2019	17/02/2020	A-	A-	0.029%
Goldman Sachs International Bank	20,000,000	1.09%		Call270	A	A	0.039%
Skipton Building Society	20,000,000	0.95%	25/07/2019	27/04/2020	A-	BBB+	0.113%
Lloyds Bank Plc (RFB)	10,000,000	1.25%	12/06/2019	20/05/2020	A+	A+	0.042%
Australia and New Zealand Banking Group Ltd	12,000,000	1.02%	29/07/2019	29/07/2020	AA-	AA-	0.024%
Santander UK Plc	50,000,000	1.15%		Call365	A+	A	0.053%
Goldman Sachs International Bank	20,000,000	1.32%		Call370	A	A	0.054%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date			
L&G UTM CLIENT ACC (UTM)	75,000,000	4.00%					
ROYAL LONDON UT MGRS LTD DEALING A/C	75,000,000	3.46%					
Total Investments	£906,500,000	1.44%					
Total Investments - excluding Funds	£756,500,000	0.99%					0.017%
Total Investments - Funds Only	£150,000,000	3.73%					

City Of London Corporation

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.58**

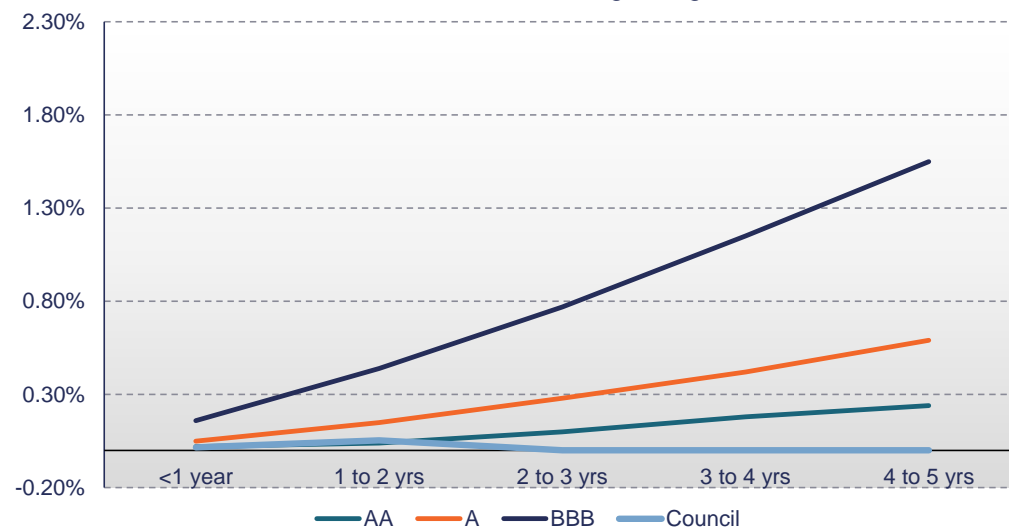
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

		WAM - Weighted Average Maturity - Maturity									
		% of Colour			% of Call		Excluding Calls/MMFs/USDBFs				
% of Portfolio		Amount	in Calls	Amount of Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution	
Yellow		21.96%	£166,100,000	90.97%	£151,100,000	19.97%	0.80%	12	52	138	581
Pink1		0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2		8.59%	£65,000,000	100.00%	£65,000,000	8.59%	1.17%	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		30.01%	£227,000,000	14.10%	£32,000,000	4.23%	0.99%	107	194	120	223
Red		33.05%	£250,000,000	72.00%	£180,000,000	23.79%	1.05%	212	239	102	199
Green		6.40%	£48,400,000	0.00%	£0	0.00%	1.02%	192	255	192	255
No Colour		0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
		100.00%	£756,500,000	56.59%	£428,100,000	56.59%	0.99%	117	165	128	239

City Of London Corporation

Investment Risk and Rating Exposure

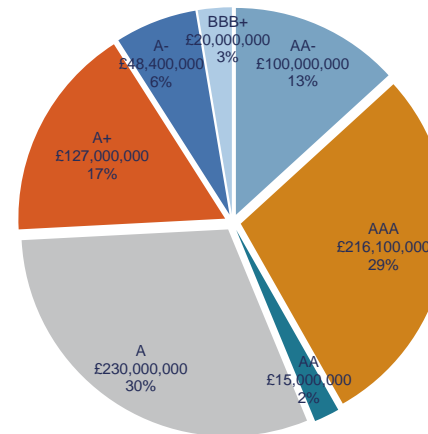
Investment Risk Vs. Rating Categories



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%	0.054%	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.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
17/07/2019	1690	Australia and New Zealand Banking Group Ltd.	Australia	The Outlook on the Long Term Rating was changed to Negative from Stable.
17/07/2019	1690	Westpac Banking Corp.	Australia	The Outlook on the Long Term Rating was changed to Negative from Stable.

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
				No Rating Changes to Report.

City Of London Corporation

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
09/07/2019	1689	Australia and New Zealand Banking Group Ltd.	Australia	The Outlook on the Long Term Rating was changed to Stable from Negative.
09/07/2019	1689	Commonwealth Bank of Australia	Australia	The Outlook on the Long Term Rating was changed to Stable from Negative.
09/07/2019	1689	Macquarie Bank Ltd.	Australia	The Outlook on the Long Term Rating was changed to Positive from Evolving.
09/07/2019	1689	National Australia Bank Ltd.	Australia	The Outlook on the Long Term Rating was changed to Stable from Negative.

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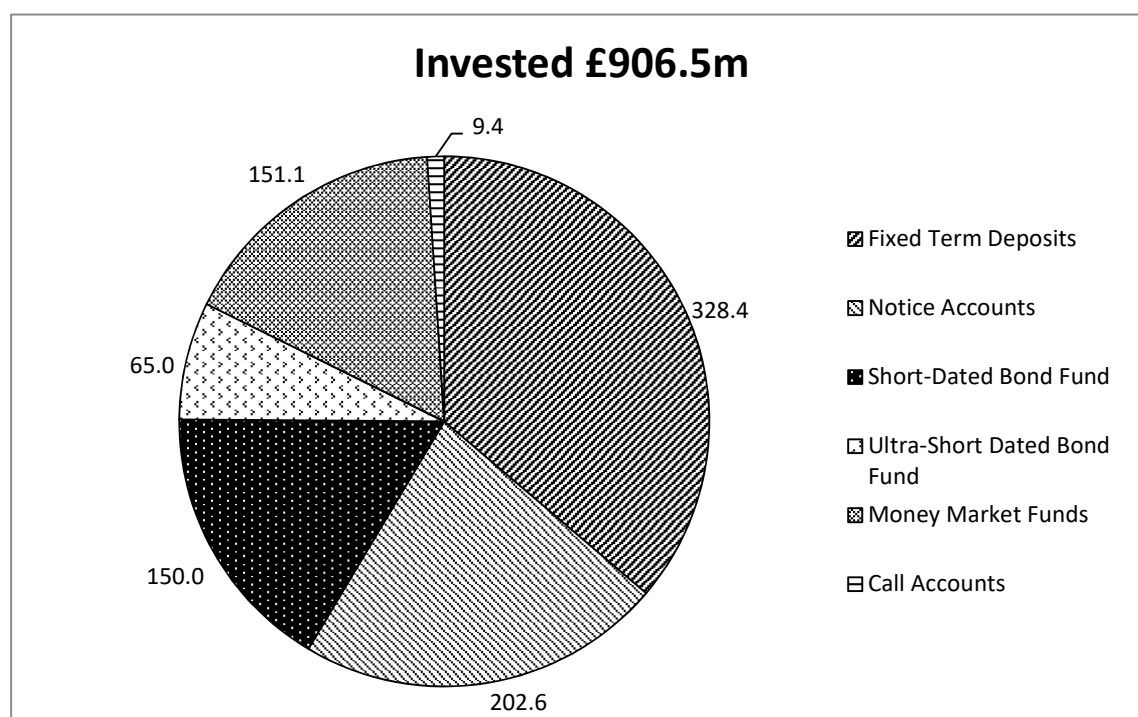
MONTHLY INVESTMENT REVIEW AS AT 31 JULY 2019

	Counterparty Limit	Total Invested as at 31-Jul-19	Average Rate of Return
	£M	£M	%
<u>TOTAL INVESTED</u>		<u>906.5</u>	<u>1.44%</u>
 <u>UK BANKS</u>			
Barclays	100.0	50.0	1.01%
HSBC	100.0	-	-
Lloyds	150.0	104.4	0.97%
RBS	100.0	-	-
		<u>154.4</u>	
 <u>BUILDING SOCIETIES</u>			
Coventry	20.0	20.0	-
Leeds	20.0	8.4	0.89%
Nationwide	120.0	-	-
Skipton	20.0	20.0	0.95%
Yorkshire	20.0	20.0	1.15%
		<u>68.4</u>	
 <u>FOREIGN BANKS</u>			
Australia & New Zealand	100.0	100.0	1.01%
National Australia Bank	100.0	-	-
Svenska Handelsbanken	100.0	-	-
		<u>100.0</u>	
 <u>LIQUIDITY FUNDS</u>			
Aberdeen SLI Liquidity Fund	100.0	29.5	0.74%
CCLA - Public Sector Deposit Fund	100.0	10.0	0.74%
Deutsche Global Liquidity Fund	100.0	34.8	0.74%
Federated Prime Liquidity Fund*	100.0	31.1	0.75%
Invesco Sterling Liquidity Fund	100.0	45.7	0.77%
Standard Life (Ignis) Liquidity Fund*	100.0	-	-
		<u>151.1</u>	
 <u>ULTRA SHORT DATED BOND FUNDS</u>			
Payden Sterling Reserve Fund	100.0	55.0	1.19%
Aberdeen SLI Short Duration Fund*	100.0	5.0	0.99%
Federated Sterling Cash Plus Fund*	100.0	5.0	1.11%
Standard Life Short Duration Fund*	100.0	-	-
		<u>65.0</u>	
 <u>SHORT DATED BOND FUNDS</u>			
L&G	100.0	75.0	4.00%
Royal London	100.0	75.0	3.46%
		<u>150.0</u>	
 <u>NOTICE ACCOUNTS</u>			
Goldman Sachs 185 Days Account	100.0	20.0	0.99%
Goldman Sachs 185 Days Account	100.0	20.0	1.00%
Goldman Sachs 270 Days Account	100.0	20.0	1.09%
Goldman Sachs 370 Days Account	100.0	20.0	1.32%
Lloyds 32 Days Account	100.0	22.6	0.95%
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%
		<u>202.6</u>	
 <u>PUBLIC SECTOR</u>			
Lancashire CC	25.0	15.0	1.27%
		<u>15.0</u>	
 <u>TOTAL</u>		 <u><u>906.5</u></u>	

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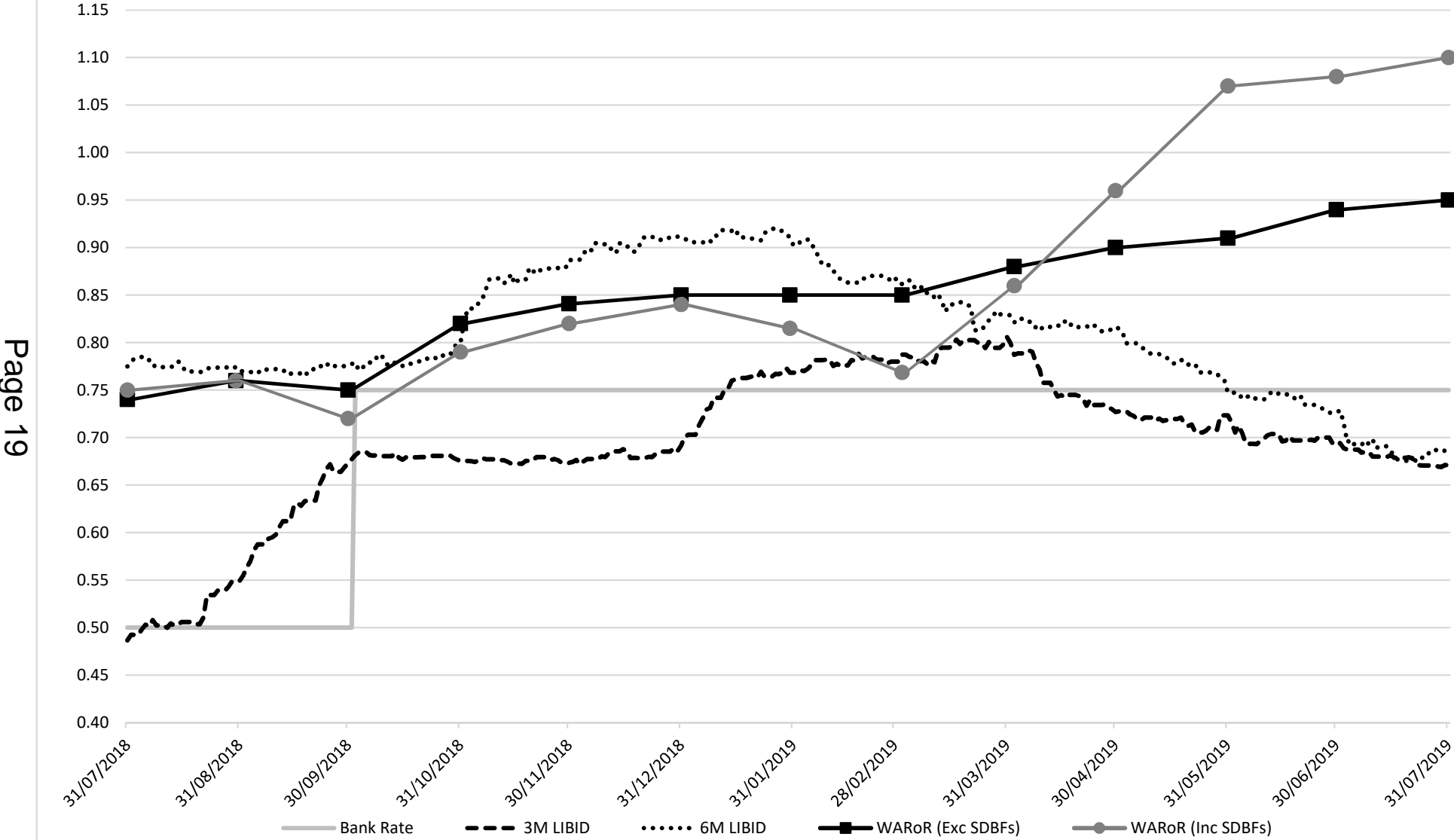
MONTH BY MONTH REPAYMENT PROFILE

	Invested as at 31-Jul-19 £M	Average Rate of Return %
Total	906.5	1.44%
Fixed Term Deposits		
August 2019	25.0	
September 2019	53.4	
October 2019	65.0	
November 2019	40.0	
December 2019	39.7	
January 2020	43.3	
February 2020	20.0	
April 2020	20.0	
May 2020	10.0	
July 2020	12.0	
	328.4	1.04%
Money Market Funds	151.1	0.75%
Ultra-Short Dated Bond Fund	65.0	1.17%
Short-Dated Bond Fund	150.0	3.73%
Notice Accounts		
- Goldman Sachs 185 Days	40.0	
- Goldman Sachs 270 Days	20.0	
- 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	
	202.6	0.72%
Call Accounts		
- Lloyds Same Day Access	9.4	0.65%
	578.1	



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Treasury Portfolio Weighted Average Rate of Return (WARoR) vs. Benchmarks



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Committee:	Date:
Financial Investment Board Audit and Risk Management	17 September 2019 19 Nov 2019
Subject: End of Year Treasury Management Review 2018/19	Public
Report of: The Chamberlain	For Information
Report author: Kate Limna – Corporate Treasurer	

Summary

The Treasury Management Strategy Statement 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.

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 2019, the City had treasury balances totalling some £865.9m. The majority of the balances are held for payment to third parties or are restricted reserves.
- Short term investment returns continue to be low, although interest rates increased moderately in line with the Bank of England decision to increase Bank Rate from 0.50% to 0.75% in August 2018.
- The investment strategy during the year conformed to the approved strategy and there were no liquidity difficulties.
- The strategy was amended by the Court of Common Council part way through the year to enable City's Cash to borrow for capital expenditure.

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 2018/19. 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 (TMSS) for 2018/19 was approved by the Financial Investment Board (1 February 2018), Finance Committee (20 February 2018) and the Court of Common Council (8 March 2018). During 2018/19 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2019

3. The City's treasury position at the start and end of 2018/19 was as follows:

Table 1	31/03/18 Principal £m	Rate/ Return %	Average Life Yrs	31/03/19 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			(125) ⁽ⁱ⁾		
	0			(125)		
Total debt	0			(125)		
Total investments	790.5	0.52	0.25	865.9	0.97	0.21
Net Investments	790.5	0.52		745.9		

(i) Bridging facility for City's Cash drawn down March 2019

The Strategy for 2018/19

4. The expectation for interest rates within the TMSS for 2018/19 was that Bank Rate would increase steadily but slowly over the next few years, with a 0.25% increase anticipated in 2018/19. This outlook was contingent upon economic conditions and political developments and under these circumstances the City's treasury cash would continue to be invested in a balanced portfolio that prioritised security and liquidity considerations. For longer term borrowing rates, the overall long run trend was for gilt yields to rise, albeit gently. It was also understood that bond yields can

be subject to exceptional levels of volatility from time to time. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5. The original TMSS did not anticipate any borrowing across the City's Funds during 2018/19. As the organisation's capital spending plans developed through the year, the mid-year review of the TMSS highlighted the potential need for borrowing for City's Cash. On 11 December 2018 the Finance Committee approved an amendment to the 2018/19 TMSS to include a borrowing policy for City's Cash. This amendment was approved by the Court of Common Council at their meeting on 10 January 2019. This borrowing policy helps the organisation to ensure that any borrowing entered into by City's Cash is prudent, sustainable and affordable.
6. There were no other changes to the TMSS during the year.
7. The 2018/19 TMSS also included a number of prudential and treasury indicators for the year which are shown in Appendix 1. The City complied with all indicators in 2018/19.

The Borrowing Requirement and Debt

8. UK gilt yields rose gently from April through to October 2018 after which they entered a general downwards trend. There was a significant correlation with US treasury yields at a time when the Federal Reserve underwent a "pivot" from tighter to looser monetary policy. The market began to perceive a need for the Fed to cut rates by December 2018 which pushed US treasury yields down, with a corresponding impact on UK gilt yields.
9. City's Cash acquired short term, variable rate market borrowing of £125m during 2018/19 to fulfil a planned financing requirement created by capital expenditure. This balance was outstanding at year end.
10. The City Fund and Bridge Houses Estates did not enter into any borrowing during the year. It is anticipated that the City Fund will require new borrowing in future years to finance the capital programme.

Investment Outturn for 2018/19

11. **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 2018. 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.)
12. Investment returns remained low during 2018/19. Expectations of an increase in Bank Rate in early 2018 were suppressed by relatively weak GDP growth for the first few months of the year. The Bank of England ultimately increased its base rate from 0.50% to 0.75% in August 2018. Sterling money market rates were thereafter on a gently rising trend from April to October but rose sharply after the Monetary

Policy Committee noted building inflationary pressures at its meeting of 1 November. However soft GDP data after December and continued uncertainty around Brexit resulted in investment rates falling back at the end of the year.

13. The City's average interest rate on cash under management for 2018/19 was 0.97%, which compares to a return of 0.52% in 2017/18 and a budgeted assumption of 0.65%. The increase in income was driven by an uplift in the Bank of England's base rate noted above, which supported higher rates in the sterling money markets. The City also benefitted from stronger returns available on its short-dated bond fund investments.
14. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

Conclusion

15. The year was characterised by continuing low levels of investment return although the increase in the Bank of England's Base Rate from 0.50% to 0.75 supported moderately higher returns in the sterling money markets.
16. City's Cash acquired a short-term borrowing facility amounting to £125m to support capital expenditure.

Appendices

Appendix 1 – Treasury Indicators

James Graham

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Appendix 1

Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2017/18	2018/19	2018/19
	Actual	Estimate	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£0	£0	£0
other long term liabilities	£14,006	£13,888	£13,888
TOTAL	£14,006	£13,888	£13,888
Operational Boundary for external debt -			
borrowing	£0	£0	£0
other long term liabilities	£14,006	£13,888	£13,888
TOTAL	£14,006	£13,888	£13,888
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	£0m	£300m	£0m
(per maturity date)			

TABLE 2: Maturity structure of fixed rate borrowing during 2018/19	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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