



Financial Investment Board

Date: WEDNESDAY, 25 NOVEMBER 2020

Time: 1.45 pm

Venue: <https://youtu.be/tSPCU96amTs>

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

Next Meetings: 9 Feb 2021 20 May 2021 30 June 2021

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Accessing the virtual public meeting

Members of the public can observe this virtual public meeting at the below link:

<https://youtu.be/tSPCU96amTs>

This meeting will be a virtual meeting and therefore will not take place in a physical location following regulations made under Section 78 of the Coronavirus Act 2020. A recording of the public meeting will be available via the above link following the end of the public meeting for up to one municipal year. Please note: Online meeting recordings do not constitute the formal minutes of the meeting; minutes are written and are available on the City of London Corporation's website. Recordings may be edited, at the discretion of the proper officer, to remove any inappropriate material.

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 23 September 2020.

For Decision
(Pages 1 - 8)
- 4. OUTSTANDING ACTIONS**
Report of the Town Clerk

For Information
(Pages 9 - 10)
- 5. MONTHLY INVESTMENT ANALYSIS REVIEW**
Report of the Chamberlain

For Information
(Pages 11 - 28)
- 6. MID-YEAR TREASURY MANAGEMENT REVIEW**
Report of the Chamberlain

For Information
(Pages 29 - 36)
- 7. RISK REGISTER FOR FINANCIAL INVESTMENT BOARD**
Report of the Chamberlain

For Decision
(Pages 37 - 56)
- 8. PRI FRAMEWORK - TO FOLLOW**
Report of the Chamberlain

For Information
- 9. QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
- 10. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

11. 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

12. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING

To agree the non-public minutes of the meeting held on 23 September 2020.

For Decision
(Pages 57 - 62)

13. NON-PUBLIC OUTSTANDING ACTIONS

Report of the Town Clerk

For Information
(Pages 63 - 64)

14. INVESTMENT PERFORMANCE MONITORING REPORTS

Report of the Chamberlain

- a) **Performance Monitoring to 30 September 2020: Pension Fund**
Report of the Chamberlain

For Information
(Pages 65 - 80)

- b) **Performance Monitoring to 30 September 2020: City's Cash and Bridge House Estates**
Report of the Chamberlain

For Information
(Pages 81 - 100)

- c) **Q3 Monitoring Report**
Report of Mercer

For Information
(Pages 101 - 118)

15. SIR WILLIAM COXEN TRUST FUND: PERFORMANCE MONITORING REPORT TO 30 SEPTEMBER 2020

Report of the Chamberlain

For Decision
(Pages 119 - 124)

- 16. CMA ORDER 2019 - PART 7 COMPLIANCE STATEMENT: REQUEST FOR DELEGATED AUTHORITY**
Report of the Chamberlain

For Decision
(Pages 125 - 130)

- 17. CHARITIES POOL/HAMPSTEAD HEATH: CHARGING FOR MANAGER FEES**
Report of the Chamberlain

For Decision
(Pages 131 - 134)

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

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

FINANCIAL INVESTMENT BOARD **Wednesday, 23 September 2020**

Minutes of the virtual meeting of the Financial Investment Board held on
Wednesday, 23 September 2020 at 1.45 pm

Present

Members:

Nicholas Bensted-Smith (Chairman)
Henry Colthurst (Deputy Chairman)
Anne Fairweather
Alderman Prem Goyal
Deputy Tom Hoffman
Alderman Robert Howard
Alderman Robert Hughes-Penney
Deputy Jamie Ingham Clark
Deputy Clare James
Tim Levene
Andrien Meyers
Deputy Henry Pollard
Deputy Philip Woodhouse

Officers:

Peter Kane	- The Chamberlain
Kate Limna	- Chamberlain's Department
James Graham	- Chamberlain's Department
Joseph Anstee	- Town Clerk's Department
Damian Nussbaum	- Director of Innovation and Growth
Simi Shah	- Innovation and Growth
Divindy Grant	- Innovation and Growth
Grace Rawnsley	- Innovation and Growth
James Gibson	- Chamberlain's Department
Chloe Rew	- Town Clerk's Department

Also in attendance:

Alderman Alison Gowman	
Deborah Cairney	- Mercer

1. APOLOGIES

Apologies for absence were received from James de Sausmarez.

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

There were no declarations.

3. RESOLUTION OF THE INVESTMENT COMMITTEE

The Board received the resolution of the Investment Committee on 21 July 2020 appointing the Board and approving its terms of reference.

4. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED - That the public minutes and non-public summary of the meeting held on 13 July 2020 be agreed as a correct record.

5. **OUTSTANDING ACTIONS**

The Board received a list of outstanding actions. The Chamberlain advised that a section on Treasury Management for the Pension Fund had been incorporated into the Pension Fund's Investment Strategy Statement, which was on the agenda for the Board's consideration.

RESOLVED – That the report be noted.

6. **MONTHLY INVESTMENT ANALYSIS REVIEW**

The Board received a report of the Chamberlain concerning the monthly investment analysis review for July 2020. The Board noted the current investment list, total investment values and average rate of return set out in the report. In response to a request by the Chairman, the Chamberlain clarified the reporting of the rate of return in respect of the Board's investments in Short Dated Bond Funds, which included both income and capital gains.

RESOLVED – That the report be noted.

7. **END OF YEAR TREASURY MANAGEMENT REVIEW 2019/20**

The Board received a report of the Chamberlain, providing an end of year report reviewing Treasury Management in 2019/20. The Chamberlain introduced the report and drew Members' attention to key points including cash balances and the impact of Covid-19 on monetary policy.

In response to a question from a Member on the increased cash balances, the Chamberlain advised that in addition to the receipt of borrowing proceeds from City's Cash, the receipt of the April Business Rates Levy had taken place one day earlier than usual, causing a further temporary increase as at 31 March 2020. However, this was an operational matter and not considered to be a cause for concern.

A Member queried whether the prospect of negative interest rates being introduced in the near future was a cause for concern or would necessitate any changes. The Chamberlain responded that due to significant decreases the Board was already operating in a very low interest rate environment, but in the event of further decreases to zero or negative interest rates, there could be increased pressure on the revenue budget for the Funds going forward. Members suggested that this possibility be revisited as the Board may need to develop a strategy to manage any further developments. The Chairman asked that this review be added as an outstanding action with an update to be brought to the next meeting on the Board, adding that swifter action may be required if circumstances were to change earlier than expected.

A Member suggested that the Board maintain a number of bench managers for near-cash or short-date options to balance out any changes to the portfolio, and suggested that consideration of a longlist be undertaken for this purpose.

RESOLVED – That the report be noted.

8. CLIMATE ACTION STRATEGY

The Board received a report of the Town Clerk and Chief Executive containing a scoped and costed Climate Action Strategy for the City of London Corporation, to be considered by the Policy & Resources Committee in September and the Court of Common Council in October 2020. The Chairman introduced the item and reminded Members of the wider context surrounding the report before handing over to the Director of Innovation and Growth to introduce the report.

The Director of Innovation and Growth then introduced the report and gave the Board an introduction to the Climate Action Strategy (the Strategy), before outlining the headline figures, and key points of the strategy, principally that the City of London Corporation will work towards 2027 as a date for net zero in its own operations or what is referred to as Scope 1 and 2, and to a net zero date of 2040 for our full value chain, or Scope 3 emissions. The City of London Corporation would also support net zero by 2040 in the Square Mile and build resilience to extreme weather in our infrastructure buildings and public realm.

The Board was then advised of the action points for the Financial Investment Board to undertake as part of implementing the strategy. This consisted of four high-level actions:

1. Embed ESG Integration and Climate Related Financial Risk in Investment Mandates;
2. Ensure climate criteria are embedded in Fund Manager selection criteria;
3. Commit to having at least 60% of our portfolio Paris-aligned by 2040; and
4. Join others in signalling ambition for 100% portfolio aligned by 2030 and become signatory to Task Force on Climate-Related Financial Disclosures

The Chairman then advised that Mercer had been consulted on the Strategy's proposals and invited Mercer's comments on the report. Mercer advised that it was felt the net-zero ambitions were achievable and were in line with other organisations, some of whom Mercer was working with on the framework to transition. Mercer advised that implementation was easier in the equity space, due to product availability and development in passive spaces. Furthermore, full commitment may necessitate strategic or management changes. Mercer commented that more detailed analysis on the existing portfolio would be beneficial for assessing what changes were required in the short and medium term.

The Chairman then invited the Deputy Chairman of the Finance Committee to comment in his capacity working across Committees on the Strategy with Members and Officers. The Deputy Chairman of the Finance Committee stressed that the objectives of developing the Strategy were that it remain

affordable, achievable and impactful, without affecting current spending commitments. The Strategy was ultimately a long-term Court of Common Council commitment, with substantive expenditure beginning in April 2021. Financial Investment Board issues were relevant to a period of 20 years, but would need to account for the Bridge House Estates Strategy and other impacts.

The Chairman then invited Members of the Board to discuss the report. A Member expressed their support for the hugely important work, but sought assurances that officers had or would have the resources required to implement the Strategy. The Member also queried whether the net-zero target of 2040 might constrain the Board's options with regards to fund managers, for instance those who were working towards a 2050 target.

The Chamberlain advised that the Corporate Treasury team would require further resources to implement the Strategy. The proposed revenue funding earmarked for use on Financial Investments was for £100,000 (per annum for the first four years from 21/22), subject to decision at Court of Common Council, which must be used for the marginal costs associated with Climate Action. The Director of Innovation and Growth advised that the Climate Action Strategy funding arrangements also contained further resources for which impacted areas could bid. The Chamberlain added that it was vital to ensure that the appropriate level of resources were in place.

The Director of Innovation and Growth then advised that whilst some organisations had set a 2050 target for net-zero, others had set a target of 2030, and added that the target was for 60% of the portfolio, which allowed some flexibility. The Chamberlain added that there was an increasing demand for relevant products, and it was expected that managers would respond to this demand.

A Member asked, in reference to the three separate Funds, whether climate change impact scenarios would be undertaken, and whether the Board should add references to carbon footprint to the Pension Fund Investment Strategy Statement. The Chairman added that distinctions between the three separate portfolios would be a key consideration. In response, the Chamberlain advised that the Pension Fund Investment Strategy Statement was a live document and would need to be amended, and a separate Investment Strategy Statement was expected for Bridge House Estates following its review. The Chamberlain added that the Board would need to consider doing an assessment of the impact of climate change, including the impact on risk and return.

A Member commented that the situation would not be static and that products and risks would continue to change over time, but certain risks such as carbon taxes needed to be kept in mind. The City of London Corporation had a responsibility to continue taking matters forward and contribute to maintain its reputation and a voice in the ongoing discussion.

A Member then asked whether a target of 60% by 2040 was sufficiently ambitious. The Director of Innovation and Growth explained the methodology

used to designate the target, and added that the target could be raised at a later stage.

The Deputy Chairman drew the Board's attention to the four actions for the Financial Investment Board. As the Board had done significant work on ESG, he hoped ESG integration could be embedded into the relevant structures quickly, and suggested aiming for a more ambitious target on decarbonising the portfolio. However, he added this aim would need more detailed reporting on what changes would be required and their impact, plus what resources were required and how these would be obtained, noting that there were likely to be differences across the three Funds. The Deputy Chairman suggested devising a clear action plan to get to April 2021, with a platform and structure for implementation after that date.

The Chairman then noted the proposed commitments set out. Whilst some actions were more easily progressed, such as embedding ESG integration and looking at climate change criteria with fund managers, there was some limitations on making precise commitments elsewhere, without knowing objective requirements for each fund and how they might be impacted by other factors currently at play.

A Member commented that looking at future strategy on each of the three funds would be part of the Strategy work, including climate change impact. Some assessment had been done at fund level for potential pinch points. It was reiterated that a 60% target by 2040 was a Corporation-wide commitment and would allow for some flexibility between the level achieved by each Fund depending on their needs.

Members recognised the need for some caution, but felt the Board could agree on the thrust and aspirations of the Strategy, and begin on the suggested ground work to enable further work after April 2021. A Member asked what flexibility the Board had to enable and push the Strategy forward, such as reallocation or ringfencing funds. The Chamberlain advised that the position would be different for each fund. The Chamberlain further advised that ringfencing funding and addressing mandates with managers were options, but work would be required to find the right balance of actions and underpin any decisions.

Members further commented that different decisions could be taken in the future as the situation developed, and that the Board could keep an open mind on achieving the aims of the Strategy as the baseline on green products moved and became increasingly mainstream. A Member added that an annual checkpoint for the whole Strategy had been inserted, and the Strategy would be subjected to the annual budget cycle. This would enable changes to affect how the Strategy was implemented as the situation developed over time.

The Chairman, summing up the discussion, felt that the Board shared approval of the thrust and aspirations of the Strategy, but also shared concern on the need for better understanding of the current situation and impact of current direction, as well as being mindful of the consequences of prospective action

on factors such as returns and risk profile. The Chairman asked whether Members were content with this position, which was agreed. The Deputy Chairman commented that it would be helpful if this summary could be reported at Policy & Resources Committee, adding that there were a number of moving parts under the Board's remit, which made it difficult to understand easily all the factors involved in measurement, and that implementation would not be a straightforward exercise regardless of aspiration.

The Chairman advised that he was unable to attend the Policy & Resources Committee meeting, and advised that the Board could agree a resolution, or ask a Member of the Board also on the Policy & Resources Committee to report the Board's position on consideration of the Strategy. The Board were content for the Deputy Chairman of the Finance Committee, also a Member of the Policy & Resources Committee, to report the Board's position, also noting that the Chamberlain would be in attendance at the meeting.

The Director of Innovation and Growth thanked Members and officers for their discussion and feedback on the Strategy.

RESOLVED – That the Financial Investment Board:

- a) Note the report; and
- b) Provide their comment and feedback on the Strategy as above, to be reported to the Policy & Resources Committee on their consideration of the Strategy.

9. **CITY OF LONDON PENSION FUND - INVESTMENT STRATEGY STATEMENT**

The Board considered a report of the Chamberlain presenting a revised Investment Strategy Statement for the Pension Fund for approval. The Chamberlain introduced the report and confirmed the Statement was a public document and subject to periodic review at least every three years. The Chamberlain drew Members' attention to amendments made following review of the Statement by the Board, including a section on Treasury Management and added control ranges for each asset class within the strategic asset allocation.

RESOLVED – That the Financial Investment Board agree the revised Investment Strategy Statement as presented.

10. **LOCAL GOVERNMENT PENSIONS BOARD - PENSION FUND INVESTMENT ACTIVITIES 1 APRIL 2019 TO 31 MARCH 2020**

The Board considered a report of the Chamberlain providing an annual summary of investment activity in relation to the Pension Fund for onward referral to the Local Government Pensions Board. The Chamberlain introduced the report and invited any additional comments from Members to be incorporated before the report was submitted to the Local Government Pensions Board. The Board then approved the report for onward referral to the Local Government Pensions Board.

RESOLVED – That the Financial Investment Board:

a) Note the report; and

b) Agree that the report be referred to the Local Government Pensions Board.

11. QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE

There were no questions.

12. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT

There was no other business.

13. 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
14-19	3
20-21	-

14. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING

RESOLVED - That the non-public minutes of the meeting held on 13 July 2020 be agreed as a correct record.

15. NON-PUBLIC OUTSTANDING ACTIONS

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

16. INVESTMENT PERFORMANCE MONITORING REPORTS

a) **Performance Monitoring to 31 July 2020: Pension Fund**

The Board received a report of the Chamberlain.

b) **Performance Monitoring to 31 July 2020: City's Cash and Bridge House Estates**

The Board received a report of the Chamberlain.

c) **Quarterly Monitoring Report to 30 June 2020**

The Board received a report of Mercer.

17. PRI - ASSESSMENT UPDATE

The Board received a report of the Chamberlain.

18. METHODOLOGY FOR CARBON FOOTPRINTING INVESTMENTS

The Board received a report of the Chamberlain.

19. **STEWARDSHIP PLAN**

The Board considered a report of the Chamberlain.

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

There were no non-public questions.

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

There was other business.

The meeting ended at 3.25 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.	13 July 2020	Risk Register	Corporate Treasurer / Town Clerk	Nov 2020	Updated Risk Register on today's Agenda
2.	23 September 2020	Negative Interest Rates	Corporate Treasurer	Nov 2020	Officers to monitor developments in respect of interest rates and assess any work required to prepare for the possibility of negative interest rates. An update is included in the mid-year review of the 2020/21 Treasury Management Strategy Statement

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City Of London Corporation

Monthly Investment Analysis Review

September 2020

Monthly Economic Summary

General Economy

The UK Flash (i.e. provisional) Manufacturing PMI fell to 54.3 in September from August's final release of 55.2, as both output and new business growth slowed from August's recent peak. Similarly, the Flash Services PMI eased to 55.1 in September from 58.8 in August, signifying the slowest growth in the sector for three months. In turn, these releases led to the Flash Composite PMI (which incorporates both sectors), falling to 55.7 in September from 59.1 in August. Meanwhile, the construction PMI, which is released one month behind the others, fell to 54.6 in August from 58.1 in July, as a lack of new contracts to replace completed contracts acted as a brake on the speed of expansion. In spite of the recent reduction in activity levels, all sectors remained comfortably in "expansion" territory – i.e. a reading in excess of 50 – as the economy continued to recover.

The final reading of second quarter GDP confirmed that the UK contracted by 19.8% q/q and 21.5% y/y, which were both marginally lower than preliminary estimates (of 20.4% and 21.7% respectively). However, more timely monthly GDP data for July confirmed that the economy grew by 6.6% m/m compared to June, registering its third consecutive month of growth since April's 20.4% m/m contraction. During this time the UK economy has grown by 18.6%, although it remains 11.7% smaller than in February, prior to the outbreak of the pandemic. Elsewhere, data showed that imports rose 7.5% m/m in July, outpacing a 3.5% rise in exports, causing the UK's trade surplus to narrow to £1.1 billion from a downwardly revised £3.9 billion in June.

Although the economy grew during July, the unemployment rate rose to 4.1% in the three months to July from 3.9% in the three months to June, as the number of people in work fell by 12,000. Since this data related to the period before the furlough scheme started to be unwound in August however, arguably of greater significance was the fact that the number of people claiming unemployment benefits rose by 73,700 in August, little changed from July's 69,900 rise – perhaps suggesting that the overwhelming majority of the estimated 3 million workers that have come off furlough since June have, to date, gone back to their jobs rather than into unemployment or inactivity. This may, in turn, explain July's upturn in average earnings (including bonuses), which contracted just 1% y/y in the three months to July compared to a 1.2% y/y fall in the three months to June – as many of those workers would have gone from receiving 80% of their salaries on the furlough to 100% upon returning to work.

UK inflation, as measured by the Consumer Price Index, fell to just 0.2% y/y in August compared to 1% in July, but was slightly higher than market expectations of a flat reading. This was the lowest reading since December 2015, driven largely by big price falls from restaurants and cafes due to the Eat Out to Help Out Scheme which was live throughout the month. This scheme had also had a positive impact on service sector activity in August and its conclusion can account for the last part of the fall in the PMI in September. As a result, consumer prices fell by 0.4% m/m in August, recording their biggest drop since January 2019. Similarly, the core inflation rate – which strips out the more volatile components like energy, food and alcoholic beverages – fell to 0.9% y/y in August, down from 1.8% in July, recording its lowest reading since June 2015. With inflation so far below target, it was no surprise to see the Monetary Policy Committee leave monetary policy unchanged during its September meeting – although the market did note that the Committee had been briefed on how a negative Bank Rate might be implemented effectively. As detailed in our forecast below, Link Group continues to expect Bank Rate to remain at 0.1%.

Buoyed partly by the impact of the Eat Out to Help Out scheme, retail sales rose by 0.8% m/m in August, slightly outperforming

market expectations of a 0.7% rise. Retail sales are now 4% higher than their pre-pandemic level in February and up 2.8% y/y. The GfK Consumer Confidence Index, meanwhile, rose to -25 in September from -27 in August, but remains considerably lower than the -7 reading in February, prior to the pandemic. Reflecting the impact of public health measures and government policies to support the economy during the coronavirus pandemic, the UK reported a record public sector current budget deficit (excluding public sector banks) of £32.0 billion in August, compared July's £13.6 billion deficit. August's deficit compares to a deficit of just £3.1 billion a year earlier. Excluding public sector-owned banks, borrowing was a record £35.9 billion, roughly seven times more than in August 2019.

In the US, the economy added another 1.4 million jobs in August, which was slightly below both market expectations and the downwardly revised 1.7 million jobs added in July. Nevertheless, the unemployment rate fell further as a result, to 8.4% from July's 10.2% rate, and below market expectations of 9.8% rate. With prices (as measured by the Fed's preferred core Personal Consumption Expenditure deflator) having fallen by 0.8% in Q2, it was no surprise to see the Federal Reserve maintain their current monetary policy stance during September's meeting. In so doing however, they also noted that the Federal Funds Rate target range is expected to remain between 0-0.25% until labour market conditions are consistent with their assessment of maximum employment and that inflation is above 2% and on track to moderately exceed it for some time.

In Europe, the final estimate for GDP confirmed that the Eurozone economy shrank by 11.8% q/q in Q2, compared to a 3.6% contraction in the previous quarter, and slightly lower than initial estimates of a 12.1% contraction. While better than the initial estimates, two consecutive periods of contraction meant that the bloc's economy was now in recession. In addition, this figure meant that, for the second quarter in a row, the bloc has suffered its steepest ever contraction. With the final estimate of Eurozone inflation showing that prices fell by 0.2% y/y in August, the ECB decided again to leave both policy rates and its coronavirus stimulus programme unchanged during its September meeting.

Housing

Both the Halifax and Nationwide house price indices rose during August, by 1.6% m/m and 2% m/m respectively. As such, prices are now 5.2% and 3.7% higher than a year ago respectively, their recent gains partly driven by the stamp duty holiday announced by the Chancellor earlier this year.

Currency

The prospect of a no deal Brexit undermined Sterling this month, which fell against both the Dollar and the Euro.

September	Start	End	High	Low
GBP/USD	\$1.1241	\$1.1025	\$1.1241	\$1.0805
GBP/EUR	€ 1.34	€ 1.29	€ 1.34	€ 1.27

Forecast

Both Link Group and Capital Economics have maintained their interest rate forecasts amid the coronavirus outbreak. Bank Rate is

Bank Rate												
	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	
Link Group	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-	

City Of London Corporation

Current Investment List

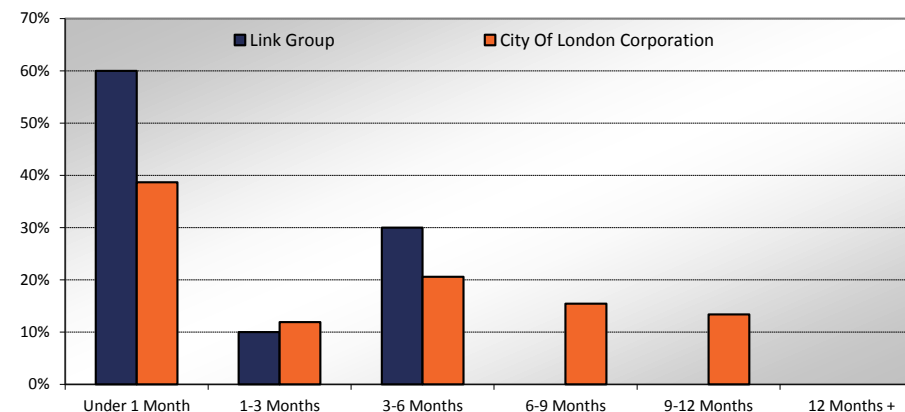
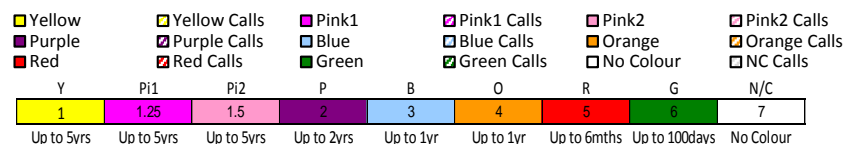
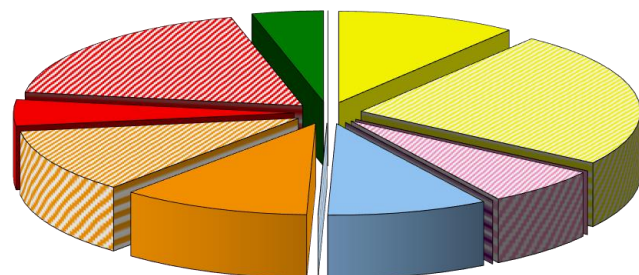
	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	MMF Aberdeen Standard Investments	92,500,000	0.08%		MMF	AAA	0.000%
	MMF CCLA	10,000,000	0.12%		MMF	AAA	0.000%
	MMF Deutsche	8,400,000	0.05%		MMF	AAA	0.000%
	MMF Federated Investors (UK)	28,000,000	0.06%		MMF	AAA	0.000%
	MMF Invesco	95,800,000	0.09%		MMF	AAA	0.000%
	USDBF Aberdeen Standard Investments	5,000,000	0.79%		USDBF	AAA	0.000%
	USDBF Federated Sterling Cash Plus Fund	5,000,000	0.55%		USDBF	AAA	0.000%
	USDBF Payden Sterling Reserve Fund	55,000,000	1.16%		USDBF	AAA	0.000%
	Goldman Sachs International Bank	20,000,000	1.04%	02/01/2020	02/10/2020	A+	0.000%
	National Westminster Bank Plc (RFB)	20,000,000	0.93%	06/01/2020	06/10/2020	A	0.001%
	Fife Council	6,000,000	0.95%	29/01/2020	29/10/2020	AA-	0.002%
	Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/10/2019	29/10/2020	A	0.004%
	London Borough of Waltham Forest	5,000,000	0.85%	30/04/2020	30/10/2020	AA-	0.002%
	Lloyds Bank Plc (RFB)	10,000,000	1.10%	01/11/2019	02/11/2020	A+	0.005%
	Lloyds Bank Plc (RFB)	15,900,000	1.10%	04/11/2019	04/11/2020	A+	0.005%
	Lloyds Bank Plc (RFB)	20,000,000	1.10%	06/11/2019	06/11/2020	A+	0.005%
	London Borough of Southwark	15,000,000	0.85%	11/05/2020	11/11/2020	AA-	0.003%
	Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/11/2019	27/11/2020	A+	0.008%
	Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/12/2019	29/12/2020	A+	0.013%
	Skipton Building Society	15,000,000	0.13%	18/08/2020	31/12/2020	BBB+	0.038%
	Santander UK Plc	20,000,000	0.50%		Call95	A	0.014%
	Lloyds Bank Plc (RFB)	40,000,000	0.20%		Call95	A+	0.014%
	Lloyds Bank Plc (RFB)	10,000,000	1.10%	02/01/2020	04/01/2021	A+	0.014%
	Australia and New Zealand Banking Group Ltd	10,000,000	0.98%	06/01/2020	06/01/2021	A+	0.014%
	Leeds Building Society	20,000,000	0.30%	14/07/2020	14/01/2021	A-	0.015%
	Northumberland County Council	5,000,000	1.00%	27/02/2020	25/02/2021	AA-	0.010%
	Birmingham City Council	15,000,000	1.20%	28/02/2020	26/02/2021	AA-	0.010%
	Stockport Metropolitan Borough Council	15,000,000	1.05%	28/02/2020	26/02/2021	AA-	0.010%
	Birmingham City Council	10,000,000	1.20%	02/03/2020	01/03/2021	AA-	0.010%
	Manchester City Council	25,000,000	1.20%	26/03/2020	25/03/2021	AA-	0.012%
	Santander UK Plc	30,000,000	0.60%		Call180	A	0.026%
	Australia and New Zealand Banking Group Ltd	70,000,000	0.40%		Call185	A+	0.027%
	Goldman Sachs International Bank	20,000,000	1.00%		Call185	A+	0.027%
	Goldman Sachs International Bank	20,000,000	0.99%		Call185	A+	0.027%
	Goldman Sachs International Bank	20,000,000	1.00%		Call185	A+	0.027%
	Goldman Sachs International Bank	20,000,000	0.96%		Call270	A+	0.039%
	National Westminster Bank Plc (RFB)	20,000,000	0.42%	03/07/2020	05/07/2021	A	0.040%
	National Westminster Bank Plc (RFB)	25,000,000	0.27%	07/08/2020	09/08/2021	A	0.045%
	National Westminster Bank Plc (RFB)	25,000,000	0.26%	14/08/2020	13/08/2021	A	0.046%
	Skipton Building Society	5,000,000	0.35%	09/09/2020	08/09/2021	BBB+	0.144%

City Of London Corporation

Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	London Borough of Waltham Forest	5,000,000	0.33%	30/09/2020	29/09/2021	AA-	0.024%
	Santander UK Plc	50,000,000	0.75%		Call365	A	0.053%
	Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
	ROYAL LONDON	75,000,000	2.40%				
	L&G	75,000,000	2.51%				
	Total Investments	£1,121,600,000	0.85%				
	Total Investments - excluding Funds	£971,600,000	0.60%				0.016%
	Total Investments - Funds Only	£150,000,000	2.46%				

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = 3.02

WARoR = Weighted Average Rate of Return

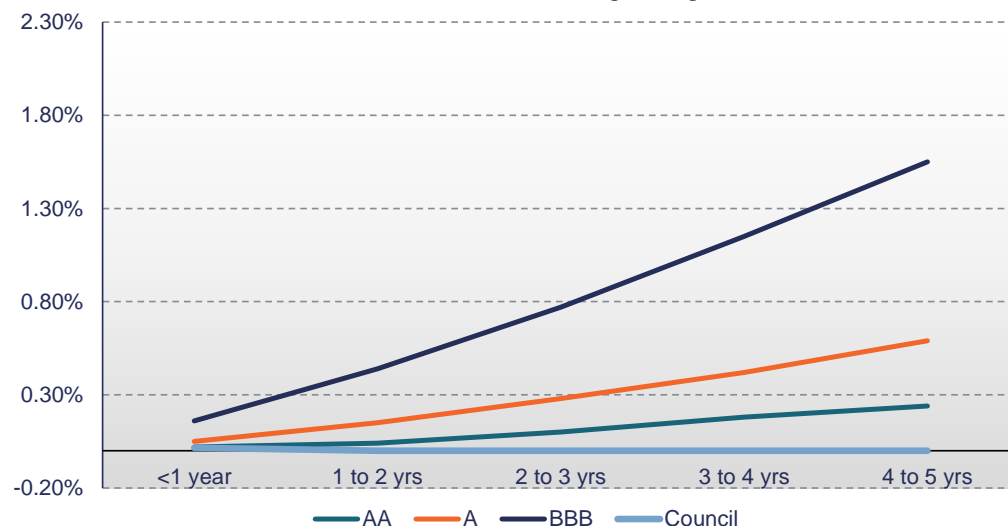
WAM = Weighted Average Time to Maturity

	% 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	34.55%	£335,700,000	69.91%	£234,700,000	24.16%	0.37%	41	97	138	323
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.69%	£65,000,000	100.00%	£65,000,000	6.69%	1.08%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	9.26%	£90,000,000	0.00%	£0	0.00%	0.45%	238	346	238	346
Orange	22.22%	£215,900,000	50.95%	£110,000,000	11.32%	0.70%	108	257	62	367
Red	23.16%	£225,000,000	80.00%	£180,000,000	18.53%	0.85%	190	252	17	325
Green	4.12%	£40,000,000	0.00%	£0	0.00%	0.24%	130	188	130	188
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£971,600,000	60.69%	£589,700,000	60.69%	0.60%	110	189	125	327

City Of London Corporation

Investment Risk and Rating Exposure

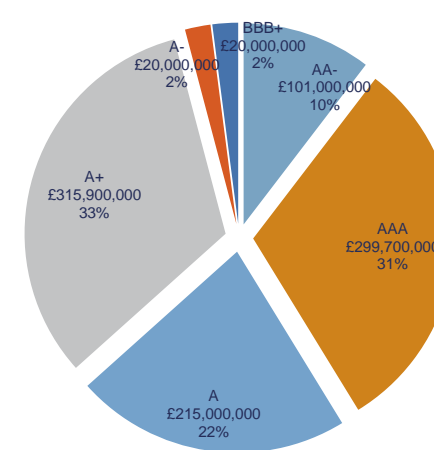
Investment Risk Vs. Rating Categories



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%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

City Of London Corporation

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
15/09/2020	1772	Cooperatieve Rabobank U.A.	Netherlands	The Long Term and Short Term ratings were downgraded to 'A+' from 'AA'- and 'F1' from 'F1+' respectively. At the same time, the Negative Watch on the Long Term, Short Term and Viability ratings were removed. The Long Term Rating was placed on Negative Outlook.
15/09/2020	1773	ABN AMRO Bank N.V.	Netherlands	The Long Term Rating was downgraded to 'A' from 'A+'.
16/09/2020	1774	ING Bank N.V.	Netherlands	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1775	Svenska Handelsbanken AB	Sweden	The Long Term and Viability Rating were removed from Negative Watch. At the same time, the Long Term Rating was placed on Negative Outlook.
18/09/2020	1776	Skandinaviska Enskilda Banken AB	Sweden	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1777	Nordea Bank Abp	Finland	The Long Term, Short Term and Viability ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	DBS Bank Ltd.	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	United Overseas Bank Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	Oversea-Chinese Banking Corporation Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/09/2020	1771	Wells Fargo Bank, NA	United States	The Outlook on the Long Term Rating was changed to Negative from Stable.
21/092020	1778	West Bromwich Building Society	United Kingdom	The 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
				No rating changes to report.

Whilst Link Group makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Link Group should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Link Group is a trading name of Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service, FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

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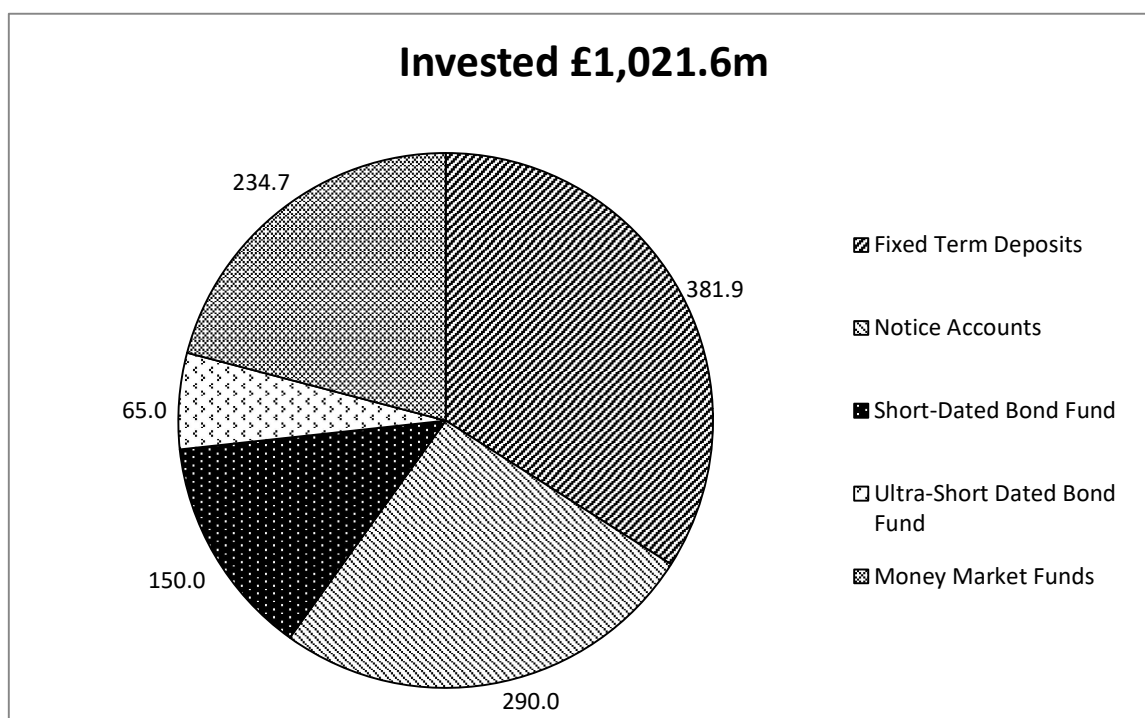
MONTHLY INVESTMENT REVIEW AS AT 30 SEPTEMBER 2020

	Couterparty Limit £M	Total Invested as at 30-Sep-20 £M	Average Rate of Return %
<u>TOTAL INVESTED</u>		<u>1,121.6</u>	<u>0.85%</u>
<u>FIXED TERM DEPOSITS</u>			
<u>UK BANKS</u>			
Barclays	100.0	25.0	1.01%
Goldman Sachs	100.0	20.0	1.04%
Lloyds	150.0	95.9	1.10%
NatWest	100.0	90.0	0.45%
		<u>230.9</u>	
<u>BUILDING SOCIETIES</u>			
Leeds	20.0	20.0	0.30%
Skipton	20.0	20.0	0.19%
		<u>40.0</u>	
<u>FOREIGN BANKS</u>			
Australia & New Zealand	100.0	10.0	0.98%
		<u>10.0</u>	
<u>LOCAL AUTHORITIES</u>			
Birmingham City Council	25.0	25.0	1.20%
Fife Council	25.0	6.0	0.95%
London Borough of Southwark	25.0	15.0	0.85%
London Borough of Waltham Forest	25.0	10.0	0.59%
Manchester City Council	25.0	25.0	1.20%
Northumberland City Council	25.0	5.0	1.00%
Stockport City Council	25.0	15.0	1.05%
		<u>101.0</u>	
<u>LIQUIDITY FUNDS</u>			
Aberdeen SLI Liquidity Fund	100.0	92.5	0.08%
CCLA - Public Sector Deposit Fund	100.0	10.0	0.12%
Deutsche Global Liquidity Fund	100.0	8.4	0.05%
Federated Prime Liquidity Fund	100.0	28.0	0.06%
Invesco Sterling Liquidity Fund	100.0	95.8	0.09%
		<u>234.7</u>	
<u>ULTRA SHORT DATED BOND FUNDS</u>			
Payden Sterling Reserve Fund	100.0	55.0	1.16%
Aberdeen SLI Short Duration Fund	100.0	5.0	0.79%
Federated Sterling Cash Plus Fund	100.0	5.0	0.55%
		<u>65.0</u>	
<u>SHORT DATED BOND FUNDS</u>			
L&G	100.0	75.0	2.51%
Royal London	100.0	75.0	2.40%
		<u>150.0</u>	
<u>NOTICE ACCOUNTS</u>			
Australia and New Zealand 185 Days Account	100.0	70.0	0.40%
Goldman Sachs 185 Days Account	100.0	20.0	1.00%
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	0.96%
Lloyds 95 Days Account	150.0	40.0	0.20%
Santander 95 Days Account	100.0	20.0	0.50%
Santander 180 Days Account	100.0	30.0	0.60%
Santander 365 Days Account	100.0	50.0	0.75%
		<u>290.0</u>	
<u>TOTAL</u>		<u>1,121.6</u>	

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MONTH BY MONTH REPAYMENT PROFILE

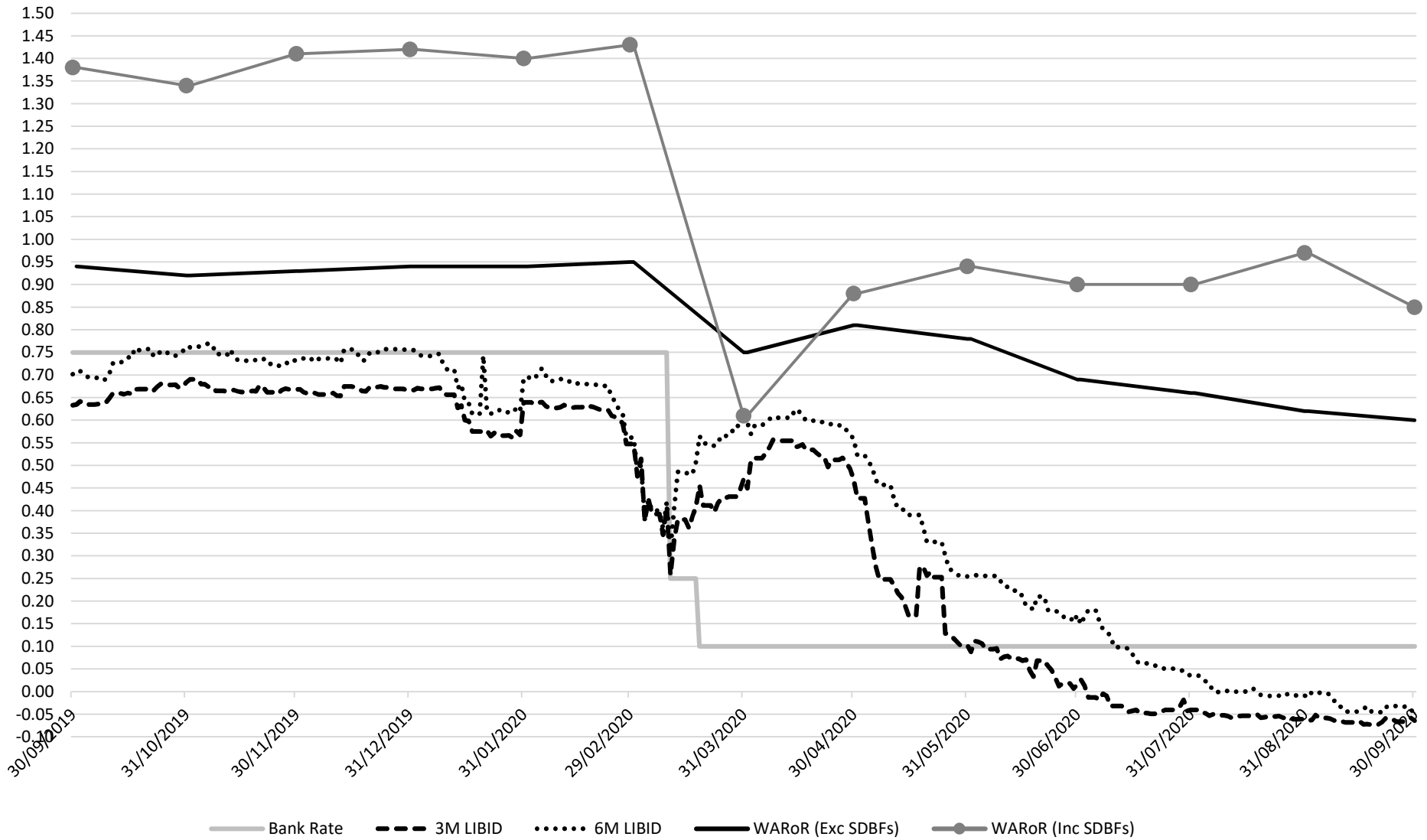
	Invested as at 30-Sep-20 £M	Average Rate of Return %
Total	<u>1,121.6</u>	<u>0.85%</u>
Fixed Term Deposits		
October 2020	76.0	
November 2020	80.9	
December 2020	35.0	
January 2021	40.0	
February 2021	35.0	
March 2021	35.0	
July 2021	20.0	
August 2021	50.0	
September 2021	10.0	
	<u>381.9</u>	0.83%
Money Market Funds	234.7	0.08%
Ultra-Short Dated Bond Fund	65.0	1.08%
Short-Dated Bond Fund	150.0	2.46%
Notice Accounts		
- ANZ 185 Days	70.0	
- Goldman Sachs 185 Days	60.0	
- Goldman Sachs 270 Days	20.0	
- Santander 95 Days	20.0	
- Santander 180 Days	30.0	
- Santander 365 Days	50.0	
- Lloyds 95 Days	40.0	
	<u>290.0</u>	0.62%
	<u>739.7</u>	



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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 Committee	25 November 2020 13 January 2021
Subject: Mid-Year Treasury Management Review 2020/21	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 2020/21 was approved by the Financial Investment Board and the Finance Committee in February 2020 and by the Court of Common Council on 5 March 2020 and came into effect on 1 April 2020.

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:

- The strategy has been reviewed considering the significant economic developments related to Covid-19 that have taken place over the first half of the year.
- Despite the very low returns available on cash investments at present, the Corporation’s priorities remain as security and liquidity (ahead of yield). Given the current risk environment, officers do not recommend that the Corporation relaxes its risk appetite for the second half of the year.
- As at 30 September 2020, the City had cash balances totalling £1,121.6m. Most of the balances are held for payment to third parties or are restricted reserves. They also include the City’s Cash borrowing proceeds.
- No approved counterparty limits were breached during the first half of 2020/21 and the City has experienced no liquidity concerns.
- No external borrowing has been entered into by City Fund and 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. Last year, the City issued debt on behalf of City's Cash via a private placement, which will support that entity's long term capital financing plans. The City has not undertaken and new borrowing in the first half of this year and does not at this stage anticipate any external borrowing in the remainder of 2020/21.
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.

Economic Update

5. Covid-19 has understandably dominated the domestic economic agenda over the first half of the year. GDP fell sharply by 21.8% between December and June, which represents one of the largest falls in output amongst developed economies, although not unexpected given the prominence of consumer-facing services in the UK. A sharp, partial recovery took place between June and August as businesses re-opened following the lifting of social restrictions, although this still left the economy 11.7% smaller than in February. Recovering the remaining lost output is expected to take much longer and over the near term developments related to the virus will weigh on GDP.
6. The Bank of England's Monetary Policy Committee (MPC) acted to reduce rates twice in March, first from 0.75% to 0.25% and then again to 0.10%. At the same time the Bank increased its quantitative easing programme by £200bn to £645bn. These actions are intended to stimulate inflation and support the economy by reducing the cost of borrowing for households and businesses and encouraging spending. The MPC has since kept rates at 0.10% and has increased QE by a further £100bn in June and another £150bn in November.

7. Inflation as measured by CPI reached 0.5% at the end of September (far below the Bank's 2% target) reflecting the direct and indirect effects of Covid-19 on the economy. The Bank has indicated that inflation will rise above the 2% target in Q3 2022 as spare capacity starts to be used up. However in a slight change of tack, the MPC has stated that it does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.
8. Gilt yields were on a declining trend before the emergence of Covid-19 and, after a brief spike in March, they have fallen further and remained at historic lows over the first half of 2020/21. This is in spite of the huge amount of additional government spending that has taken place this year and the new public debt that has been issued to finance that spend, which in ordinary circumstances would lead to an increase in gilt yields.
9. Considering the above, officers expect that interest rates will remain very low for the foreseeable future. The Corporation's treasury consultants, Link Asset Services, have provided an updated interest rate forecast which is attached as an Appendix.

Treasury Management Strategy Statement and Annual Investment Strategy Update

10. The Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21 was approved by the Financial Investment Board (11 February 2020), the Finance Committee (18 February 2020) and the Court of Common Council (5 March 2020).
11. As such the strategy was conceived before the emergence of Covid-19 as a global pandemic and this mid-year review provides a timely opportunity to reassess the strategy and its appropriateness in light of the economic developments outlined above.
12. Having considered the strategy, officers believe that it remains appropriate for the second half of 2020/21 and do not recommend any fundamental changes are made.

Investment Strategy

13. The City held £1,121.6m of investments as at 30 September 2020 (£1,014.7m at 31 March 2020). Most of the balances are held for payment to third parties or are restricted reserves; they also include debt issued by City's Cash in 2019/20. The weighted average rate of return on the City's treasury management portfolio at the end of September was 0.85%.
14. In accordance with the CIPFA Treasury Management Code of Practice, the Corporation's investment priorities are:
 - Security of capital
 - Liquidity
 - Yield

15. The Corporation aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Corporation's risk appetite. In the current economic climate, it is considered appropriate to retain sufficient capacity to cover planned and potentially unanticipated cash flow needs, but also to seek out value by placing deposits with high credit rated counterparties where possible. The current investment strategy remains appropriate for facilitating these aims by limiting lending to only high-quality borrowers whilst also not being so restrictive as to create an overconcentration of exposure to any single counterparty.
16. As shown by the interest rate forecasts in the Appendix, it is now very difficult to earn the sort of returns commonly seen in previous years as all investment rates are barely above zero now that Bank Rate is at 0.10%. Given this risk environment and the fact that increases in Bank Rates are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.
17. Although the returns on cash investments are at historic lows, the prime objective is to ensure cash is safe and available when needed. It is not recommended that the Corporation relaxes its creditworthiness criteria at this stage to protect income as this would contradict the primary obligation of keeping the Corporation's cash assets secure, before considering yield.
18. No approved counterparty limits were breached during the first half of 2020/21 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.

Negative interest rates

19. As noted above, the Bank of England has loosened monetary policy in order to mitigate the economic impact of Covid-19. This has coincided with renewed speculation over whether the Bank will reduce interest rates even further to zero or below zero. Indeed, the Bank itself has undertaken preparations for a zero or negative interest rate environment and in October the Deputy Governor formally wrote to financial institutions requesting feedback on their readiness for negative policy rates.
20. However, when the MPC met in November it unanimously agreed to keep Bank Rate at 0.10% and voted to increase its quantitative easing programme by another £150bn to £895bn. This could imply that the Bank will seek to use asset purchases rather than interest rates as its preferred tool for stimulating the economy during the pandemic and this coheres with the view of the City's treasury consultants, Link, who currently contend that the MPC will keep interest rates at 0.10% for the foreseeable future. However, given that it remains possible that negative interest rates could be implemented, it is prudent for the Corporation to assess the potential ramifications for the cash portfolio.
21. It should be noted that for most of the past decade, the rate of inflation as measured by CPI has been at a level above the yield available on short term

cash investments. Therefore, treasury managers have already been navigating an environment whereby real interest rates have routinely been negative for some years. The prospect of negative nominal interest rates does not fundamentally change this situation and if the Bank reduces interest rates to zero or lower, it will reinforce the importance of ensuring cash is invested over appropriate time horizons to generate the best possible yield within appropriate parameters.

22. Officers have considered the potential impact of negative interest rates on the credit standing of banks. Even though banks are much more adequately capitalised today than compared to before the global recession in 2007-08, negative interest rates have the potential to further squeeze the interest rate margins on which their profitability depends. This could have an adverse impact on their credit standing with the main rating agencies. Officers have stress tested a scenario whereby Fitch downgrades its long-term credit rating for all financial institutions by one notch (e.g. from A to A-). Of the 36 domestic and global banks that are currently eligible under the 2020/21 Treasury Management Strategy, 5 would no longer meet the minimum credit requirement (that is to say their long term credit rating would move from “A” to “A-”. However, none of these 5 banks are active counterparties for the Corporation and all of the banks with whom the Corporation routinely places deposits would still qualify under the stressed conditions. Therefore the current creditworthiness policy remains appropriate for restricting lending to only high quality counterparties whilst ensuring that there is sufficient capacity to diversify deposits amongst multiple banks.

Borrowing Strategy

City Fund

23. The City Fund has not acquired any external borrowing in the first half of the year and it is not anticipated that any external borrowing will be required in the remainder of 2020/21. Although the City Fund has a borrowing requirement forecast in the years ahead, entering into new external borrowing now would increase the Corporation’s revenue pressures in the immediate term and, given that the outlook for interest rates is judged to be benign, officers recommend that no new borrowing is undertaken.

City’s Cash

24. No further borrowing activity has been undertaken by City’s Cash, which issued £450m debt in 2019/20. The first tranche of £250m of this debt was received in September 2019. The remaining £200m of borrowing proceeds will be received in July 2021 and will be used to support the planned increase in capital expenditure arising over the course of the next few years. By deferring receipt of this borrowing until 2021, the City has avoided paying additional interest costs whilst at the same time securing fixed rate borrowing on competitive terms. Likewise, by arranging both tranches of borrowing (the initial £250m and the deferred £200m) at once, the City has avoided the administrative and financial burden of running a second private placement process in 2021.

Conclusion

25. The City has effectively executed the 2020/21 Treasury Management Strategy during the first six months of the year. After considering the original strategy against the current treasury management environment, officers judge that the investment strategy remains appropriate for the second half of the year.

APPENDIX: Interest Rate Forecasts 2020 - 2024

James Graham

Group Accountant – Pensions & Treasury Management

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APPENDIX: Interest Rate Forecasts 2020 – 2024

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View		9.11.20													
		Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB		1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB		2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB		2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB		2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60
Bank Rate															
Link		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate															
Link		1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
Capital Economics		1.80	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	-	-	-	-	-
10yr PWLB Rate															
Link		2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
Capital Economics		2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	-	-	-	-	-
25yr PWLB Rate															
Link		2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
Capital Economics		2.40	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	-	-	-	-	-
50yr PWLB Rate															
Link		2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60
Capital Economics		2.30	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	-	-	-	-	-

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Committee:	Date:
Financial Investment Board	25 November 2020
Subject:	Public
Risk Register for Financial Investment Board	
Report of:	For Decision
The Chamberlain	
Report author:	
James Graham – Chamberlain’s Department	

Summary

This report reviews the key Risk Register for the Financial Investment Board. The Risk Register details the key risks that the Board has identified alongside a risk score which indicates the likelihood of a risk being realised together with the potential impact to the organisation and the appropriate mitigations. Officers have conducted a preliminary review of the Risk Register and recommend that the current scores for two risks are changed to reflect changes in the risk environment over the past six months:

- CHB FIB 01 (Insufficient assets) – the current score has been reduced from 12 to 8 as the three Funds have recovered in value since Q1 and are now ahead of the long term absolute return targets.
- CHB FIB 07 (Failure to discharge responsible investment duties) – the current score has been increased from 4 to 6. The Board’s activities have not regressed in any way but officers judge that the likelihood of reputational risk materialising has increased due to the public status of its new climate commitments.

The narrative “risk update” and “latest note” on associated actions has been updated where necessary. Officers do not recommend that any new risks are added to the register and neither do they advise that any existing risks should be removed.

The Risk Register is included at Appendix 2 with risk updates underlined throughout. The Risk Register is reviewed semi-annually by the Financial Investment Board and more frequently by officers, who report any material changes or new risks identified in between reviews on an exceptions basis.

Recommendations

Members are asked to:

- review the existing risks and actions present on the Financial Investment Board’s Risk Register, and confirm that appropriate control measures are in place; and
- confirm that there are no further risks relating to the services overseen by the Financial Investment Board.

Main Report

Background

1. The Financial Investment Board instituted a Risk Register on 22 March 2018 to help identify and manage the strategic risks facing the Board in discharging its responsibilities to oversee the City's non-property investments. The current Risk Register, as agreed by the Board on 3 June 2020, is included as Appendix 2.
2. The Financial Investment Board should review the register semi-annually. Officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. This is in line with standard risk review procedures across the rest of the City of London Corporation.
















Review of Risks







3. The method of assessing risk reflects the City of London's standard approach to risk assessment as set out in its Risk Management Strategy approved by the Audit and Risk Management Committee in May 2014. The City of London Corporation risk matrix, which explains how risks are assessed and scored, is attached at Appendix 1 of this report. Risk scores range from one, being lowest risk, to the highest risk score of thirty-two. These scores are summarised into 3 broad groups, each with increasing risk, and categorised "green", "amber" or "red".
4. The Risk Register to be reviewed is set out in Appendix 2.

Update on risks

5. The Risk Register contains seven risks which are summarised below. In the table, "Trend Icon" refers to the direction of travel since the last review for a given risk whilst "Flight Path" illustrates a risk's score over time, with the current risk score shown on the right hand side of the graphic. The risks are ranked by current risk score.

Table 1: Risk Summary

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
CHB FIB 01	Insufficient assets - Pension Fund, City's Cash and Bridge House Estates	8			
CHB FIB 04	Counterparty failure - Treasury Management	8			
CHB FIB 02	Targeted returns - Pension Fund, City's Cash and Bridge House Estates	6			
CHB FIB 07	Failure to discharge responsible investment duties	6			
CHB FIB 03	Service provider failure - Pension Fund, City's Cash and Bridge House Estates	4			

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
CHB FIB 05	Insufficient Cash - Treasury Management	4			
CHB FIB 06	Governance	4			

6. Officers have reviewed the Risk Register and consider that the risk environment has changed since the Board last reviewed the Register in July 2020. This is manifested in two of the Board's key risks:
 - a. **CHB FIB 01 (Insufficient assets)** – the current score for this risk was increased from “8” to “12” in June 2020 due to the impact of Covid-19 on financial markets in Q1 2020. The three main Funds' asset performance has been relatively strong over the past six months and all three Funds have recovered in value and are now ahead of their absolute return targets over the long term. Consequently, the current risk score has been returned to “8” and officers judge that the likelihood of the Corporation's financial assets being unable to fund the three Funds' associated liabilities and ongoing spending commitments has decreased from “possible” to “unlikely”. There is clearly still uncertainty over the ultimate impact of Covid-19 on the global economy and financial asset prices and the change in risk score does not imply that these risks have been eradicated.
 - b. **CHB FIB 07 (Failure to discharge responsible investment duties)** – the current score for this risk has changed from “4” to “6”. Since the last risk review, the Corporation has published a Climate Action Strategy. The Board will play a crucial role in delivering the goals within the strategy and the increased score reflects the elevated reputational risk arising from the public nature of these commitments.
7. The scores for other risks have been maintained at their previous levels, although these risks have each been reviewed and updated where necessary in the Register itself. Updates to the Risk Register are underlined throughout.
8. As a result of the review, officers consider that the four risks listed at the top of Table 1 are currently the most serious risks on the Register and require active risk management by Members and officers. All other risks continue to have a “green” risk score.
9. Officers have also considered whether any new risks have emerged since the last review. Although the Board's operating environment continually changes officers have determined that the existing Register captures the material risks facing the Board and enables the Board to concentrate on the most prescient risks.
10. Each risk presented in the Risk Register is accompanied by one or more “action(s)” which reflect how the risk is managed and mitigated. A “due date” for required completion is set against each action. Due to the nature of the risks overseen by the Board, in many cases it is impossible to entirely eliminate a risk, and therefore corresponding actions will always remain live. These ongoing actions are necessary in order to maintain the current risk score. Where this is the case the Risk Register includes an annual due date, which will be renewed each year.

Conclusion

11. The risks overseen by the Financial Investment Board are primarily of low likelihoods but represent substantial impact, particularly with regards to financial loss and reputational damage. The Board is requested to confirm that appropriate control measures are in place for these risks and that there are no other risks that should be added to the Risk Register.

Appendices

- Appendix 1 - City of London Corporation Risk Matrix
- Appendix 2 – Financial Investment Board Risk Register

James Graham

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Chamberlains Department

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City of London Corporation Risk Matrix (Black and white version)

Note: A risk score is calculated by assessing the risk in terms of likelihood and impact. By using the likelihood and impact criteria below (top left (A) and bottom right (B) respectively) it is possible to calculate a risk score. For example a risk assessed as Unlikely (2) and with an impact of Serious (2) can be plotted on the risk scoring grid, top right (C) to give an overall risk score of a green (4). Using the risk score definitions bottom right (D) below, a green risk is one that just requires actions to maintain that rating.

(A) Likelihood criteria

	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)
Criteria	Less than 10%	10 – 40%	40 – 75%	More than 75%
Probability	Has happened rarely/never before	Unlikely to occur	Fairly likely to occur	More likely to occur than not
Time period	Unlikely to occur in a 10 year period	Likely to occur within a 10 year period	Likely to occur once within a one year period	Likely to occur once within three months
Numerical	Less than one chance in a hundred thousand (<10-5)	Less than one chance in ten thousand (<10-4)	Less than one chance in a thousand (<10-3)	Less than one chance in a hundred (<10-2)

(B) Impact criteria

Impact title	Definitions
Minor (1)	Service delivery/performance: Minor impact on service, typically up to one day. Financial: financial loss up to 5% of budget. Reputation: Isolated service user/stakeholder complaints contained within business unit/division. Legal/statutory: Litigation claim or fine less than £5000. Safety/health: Minor incident including injury to one or more individuals. Objectives: Failure to achieve team plan objectives.
Serious (2)	Service delivery/performance: Service disruption 2 to 5 days. Financial: Financial loss up to 10% of budget. Reputation: Adverse local media coverage/multiple service user/stakeholder complaints. Legal/statutory: Litigation claimable fine between £5000 and £50,000. Safety/health: Significant injury or illness causing short-term disability to one or more persons. Objectives: Failure to achieve one or more service plan objectives.
Major (4)	Service delivery/performance: Service disruption > 1 - 4 weeks. Financial: Financial loss up to 20% of budget. Reputation: Adverse national media coverage 1 to 3 days. Legal/statutory: Litigation claimable fine between £50,000 and £500,000. Safety/health: Major injury or illness/disease causing long-term disability to one or more people. Objectives: Failure to achieve a strategic plan objective.
Extreme (8)	Service delivery/performance: Service disruption > 4 weeks. Financial: Financial loss up to 35% of budget. Reputation: National publicity more than three days. Possible resignation leading member or chief officer. Legal/statutory: Multiple civil or criminal suits. Litigation claim or fine in excess of £500,000. Safety/health: Fatality or life-threatening illness/disease (e.g. mesothelioma) to one or more persons. Objectives: Failure to achieve a major corporate objective.

(C) Risk scoring grid

Likelihood	Impact			
	X	Minor (1)	Serious (2)	Major (4)
	Likely (4)	4 Green	8 Amber	16 Red
	Possible (3)	3 Green	6 Amber	12 Amber
	Unlikely (2)	2 Green	4 Green	8 Amber
	Rare (1)	1 Green	2 Green	4 Green
				8 Amber

(D) Risk score definitions

RED	Urgent action required to reduce rating
AMBER	Action required to maintain or reduce rating
GREEN	Action required to maintain rating

This is an extract from the City of London Corporate Risk Management Strategy, published in May 2014.

Contact the Corporate Risk Advisor for further information. Ext 1297

October 2015

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CHB FIB Detailed risk register EXCLUDING COMPLETED ACTIONS

Report Author: James Graham

Generated on: 13 November 2020

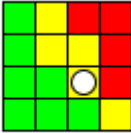
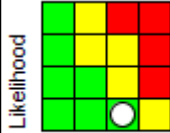


Rows are sorted by Risk Score

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
P CHB FIB 01 Insufficient assets - Pension Fund, City's Cash and Bridge House Estates	<p>Cause: The asset allocation of each investment portfolio (Pension Fund, City's Cash and Bridge House Estates) are unable to fund long term liabilities and expenditure requirements due to market movements.</p> <p>Event: There are insufficient assets to meet liabilities or expenditure requirements.</p> <p>Effect: Reduced income or lower than anticipated growth which could impact on the Corporation's medium term financial plans. Employers of the Pension Fund are required to provide further funding through contributions to finance liabilities. City's Cash and Bridge House Estates would be required to sell financial assets to fund expenditure requirements.</p>	<p>Likelihood</p> <p>Impact</p>	8	<p><u>The Pension Fund's absolute return target has been set at 5.2% annually from 1st April 2020 whilst the absolute return targets for City's Cash and Bridge House Estate are both currently set at CPI +4%. All three funds have recovered strongly following the Covid-19 driven downturn in markets in the first quarter of 2020. Although there remains considerable uncertainty about the ultimate impact of the pandemic on the global economy and financial markets, the strength of the recovery to date has meant that all three Funds are now meeting their absolute return targets over the long term. Therefore, the score for this risk has been updated to reflect the judgement that the likelihood of this risk materialising is now "unlikely" rather than "possible".</u></p>	<p>Likelihood</p> <p>Impact</p>	8	31-Mar-2021	↓

08-Mar-2018 Peter Kane				<u>12 Nov 2020</u>				Decreasin g
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Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 01a	The Investment strategy of the Pension Fund, Bridge House Estates and City's Cash is reviewed at least every three years by the Financial Investment Board.	The Pension Fund's triennial valuation is carried out by the Fund's actuary as required by statute every three years and this serves as foundation for the Pension Fund's Investment Strategy, which in turn provides the basic themes and framework for the City's Cash and Bridge House Estates' investment strategy reviews. <u>The Pension Fund investment strategy was reviewed following the 2019 triennial valuation and approved by the Financial Investment Board on 13 July 2020. The Bridge House Estates investment strategy is currently being reviewed for property and financial investments and is expected to be reviewed by the Investment Committee in January 2021. The City's Cash investment strategy is due to be reviewed.</u>	Caroline Al-Beyerty; Kate Limna	12-Nov-2020	20-Jan-2021
CHB FIB 01b	The investment performance of the Pension Fund, City's Cash and the Bridge House Estates is measured against absolute return targets required to meet long term objectives. This is reported to the Financial Investment Board throughout the year and is supplemented by market insight from the Corporation's investment consultants which will assist any strategic decisions required in between the three-year formal strategy reviews.	Individual Fund investment performance is brought to each Financial Investment Board for consideration.	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB FIB 04 Counterparty failure - Treasury Management 08-Mar-2018 Peter Kane	Cause: External events, including cybersecurity incidents, threaten the solvency of counterparties the Corporation has lent to. Event: Failure of counterparty to fulfil obligation to the Corporation, i.e. default on repayments. Effect: Asset valuations at risk.	 Likelihood Impact	8	Treasury Management Strategy Statement was agreed at Court of Common Council on 5th March 2020. <u>COVID-19 has impacted the domestic economy and it is more important than ever to focus on the financial standing of the Corporation's treasury counterparties. The current Treasury Management Strategy restricts lending to only high-quality counterparties and remains fit for purpose.</u> <u>12 Nov 2020</u>	 Likelihood Impact	4	31-Mar-2021	Constant

Action no	Action description	Latest Note			Action owner	Latest Note Date	Due Date
CHB FIB 04a	Detailed due diligence is carried out when new counterparties are onboarded.	<p>Independent analysis and consultation with treasury investment advisor when adding additional counterparties.</p> <p>Where the Corporation invests in money market funds, officers have increased monitoring of the funds' daily and weekly liquidity profiles to ensure the vehicles retain adequate liquidity. At present, there are no liquidity concerns with any of the Corporation's existing fund counterparties. These funds invest in very short term and very high-quality instruments, so default risk is low.</p> <p>The Corporation's short dated bond fund investments are more sensitive to changes in economic conditions and this inevitably had an impact on valuations during March. These funds have fully recovered in value over the summer. The short dated bond fund investments are much longer term in nature and therefore the Corporation has a greater tolerance for volatility in returns.</p> <p>Officers also continue to monitor changes in the credit standing of direct counterparties via</p>			James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

		ratings changes from the three main credit rating agencies and other news.			
CHB FIB 04b	When lending directly to counterparties, ensure they meet the minimum credit criteria as set out in the most recent Treasury Management Strategy Statement.	All lending continues to be conducted within the parameters of the 2020/21 Treasury Management Strategy Statement as agreed by Court of Common Council on 5th March 2020. Additionally, officers have implemented financial metric-based criteria for determining the eligibility of local authority borrowers.	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021
CHB FIB 04c	Monitor markets regularly through credit rating updates and financial publications, plus seeking the advice of treasury investment advisors when appropriate	Officers continually monitor for credit rating updates, also financial press and industry publications in search of any news regarding the Corporation's counterparties. Treasury investment advisors provide rating agency credit watches and other market data including Credit Default Swap prices on money market participants.	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB FIB 02 Targeted returns - Pension Fund, City's Cash and Bridge House Estates 08-Mar-2018 Peter Kane	<p>Cause: Fund managers fail to achieve the targeted investment returns because</p> <ul style="list-style-type: none"> the Board appoints unsuitable fund managers, individual fund managers underperform against the benchmarks agreed by the Board, aggregate fund manager performance fails to achieve the Board's long-term targets <p>Event: Failure to be seen to manage the funds responsibly. Effect: Supervisory intervention over management of the Funds.</p>	<p>Likelihood</p> <p>Impact</p>	6	<p>The performance of fund managers and their aggregate performance is reported against target to each Financial Investment Board. Most managers are currently outperforming their assigned targets over longer term time horizons, although several are not. Where relative returns are negative, Members and officers seek to understand why in order to determine whether there is continued conviction in the manager's strategy to recover performance.</p> <p>12 Nov 2020</p>	<p>Likelihood</p> <p>Impact</p>	6	31-Mar-2021	<p>Constant</p>

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 02a	Investment managers' performance and their aggregate performance is measured against appropriate benchmarks and monitored by the Financial Investment Board throughout the year. It is supplemented by market insight from the Corporation's investment consultants which provides peer group comparisons; checks on movement of key officers; and reviews on the incorporation of ESG considerations in implementing their investment strategies. Fund managers are invited to meet with Officers and Members to account for their performance as and when the Board deem this necessary/as required.	<u>The latest performance reports to the Board from officers and the investment consultant Mercer detail appointed manager and fund level performance up to 30 September 2020. Since the Risk Register was last reviewed by the Board in June, Member-level meetings have taken place with Harris, Majedie and Baillie Gifford.</u>	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

Action no	Action description	Latest Note	Action	Latest Note	Due Date
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			owner	Date	
CHB FIB 07a	Reporting on responsible investment activities to the Principles for Responsible Investment is completed on an annual basis. The Board receives an annual Transparency Report from the PRI from which it can evaluate progress against responsible investment goals.	<u>The Board received the PRI's 2020 assessment at its meeting in September 2020 which evidenced an improvement in the Corporation's standing with the PRI. A new framework was launched in November 2020. Officers are in the process of reviewing the new framework and preparing towards submission in March 2021.</u>	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021
CHB FIB 07c	As part of the regular management and monitoring of investment mandates, the Board and responsible officers challenge investment managers on ESG issues arising in the portfolio. The Investment Consultant reports to the Board on its monitoring of ESG risks on a quarterly basis.	The Board receives regular updates on ESG standings amongst its appointed investment managers from the Investment Consultant on a quarterly basis. In April, Members held a dedicated ESG meeting with Pyrford (multi asset manager). Members also met with CQS earlier in the year and discussed the credit multi asset manager's approach to ESG.	James Graham; Kate Limna	19-May-2020	31-Mar-2021
<u>CHB FIB 07e</u>	<u>The Board has committed to meeting the standards of the new 2020 UK Stewardship Code and needs to ensure compliance is developed. The Board reviews asset stewardship across its investment mandates on an annual basis and uses the exercise to encourage better ESG outcomes amongst its existing managers.</u>	<u>The Board has established an asset stewardship plan to help develop compliance towards the new UK Stewardship Code with an aim to publish its first Annual Stewardship Report in Q1 2022. The plan includes various other actions that will help the Board develop its responsible investment role and manage climate risks.</u>	James Graham; Kate Limna; Divindy Grant	13-Nov-2020	28-Feb-2022
<u>CHB FIB 07f</u>	<u>The Board has been assigned several key actions which will enable the Corporation to deliver its Climate Action Strategy. Key to this is achieving a clear plan on how to achieve Paris-alignment by 2040.</u>	<u>A programme of officer-level meetings with the Board's appointed managers has been planned for Q4 2020 / Q1 2021 to discuss implementing the climate commitments and further understanding current exposure and available disclosures. Officers are also assessing the need for third party analysis to support planning towards net zero. Relevant training opportunities for the Board are being actively explored.</u>	James Graham; Kate Limna; Divindy Grant; Simi Shah	13-Nov-2020	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB FIB 03 Service provider failure - Pension Fund, City's Cash and Bridge House Estates <div> <div>Page 50</div> <div>08-Mar-2018</div> <div>Peter Kane</div> </div>	Cause: Corporate, financial, economic or cybersecurity threats result in service provision withdrawal or liquidation of partner organisations. Event: Failure of fund manager, investment consultant or other service provider without notice. Effect: Pension Fund, City's Cash or Bridge House Estates' asset valuations at risk or a period of time without service provision.	<div> <div>Likelihood</div> <div>Impact</div> </div>	4	Officers meet regularly with fund managers, investment consultants and other service providers. Officers write to all counterparties requesting latest internal control report from fund managers and custodian ahead of the closure of accounts. <u>Social and commercial restrictions have been imposed in many countries as authorities have attempted to control the impact of Covid-19. Appointed fund managers and ancillary service providers have all delivered business continuity successfully during this period.</u> 12 Nov 2020	<div> <div>Likelihood</div> <div>Impact</div> </div>	4	31-Mar-2021	<div> <div>Constant</div> <div> </div> </div>

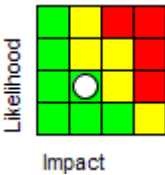
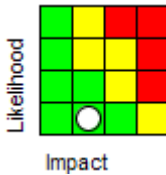
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 03a	Detailed due diligence is carried out when new fund managers, investment consultant or other service provider are appointed.	New manager due diligence undertaken in consultation with investment consultant. There are currently no plans to appoint any additional managers. The investment consultant was appointed via the National LGPS procurement framework in 2015.	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021
CHB FIB 03b	Review of internal control reports on annual basis.	Corporate Treasury compile an archive of the most up to date relevant annual internal control reports issued by all issuing fund managers and custodian as part of statement of account compilation across Funds. All internal control reports from the pooled fund managers have been received where available. <u>Link Fund Solutions, who provide administration services for three appointed fund managers (Majedie, Lindsell Train and Ruffer) reported various internal control deficiencies surrounding IT controls in their most recent annual control report. Officers have discussed with the affected fund managers who have confirmed that the deficiencies have</u>	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

		<u>not impacted the Corporation's investments and that remedial action has been escalated to a senior level at LFS.</u>			
CHB FIB03c	Monitor markets regularly through financial publications and seek advice of managers and investment consultant when appropriate.	Officers regularly monitor financial press and industry publications particularly in search of any news regarding entities that have an existing relationship across the Corporation's Funds.	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

[illegible]

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 05a	Combined cashflow daily forecast maintained to project inflows and outflows over the year forward to ensure a sufficient level of on-going liquidity. Cashflow requirement is the fundamental consideration when agreeing duration of fixed term deposits or placing capital in money market funds.	Cash flow model maintained daily, incorporating known flows and estimating payments and income of uncertain timing based on historic cash flow profiles and estimations for the timing and value of future payments and receipts.	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

CHB FIB 05d	A balance sheet review exercise enables the Corporation to further understand the likely timing of any future need to liquidate long term investment assets or external borrowing requirement.	Officers plan to conduct a balance sheet review using the 2019/20 accounts and based on the outcome of the medium-term financial planning process that is currently underway.	James Graham; Kate Limna	12-Nov-2020	09-Feb-2021
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Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB FIB 06 Governance 08-Mar-2018 Peter Kane	<p>Cause: Lack of understanding of the applicable statutory requirements such as investment regulations, prudential code etc. Inadequate oversight of the operations and developments at the regional pool operator, the London CIV.</p> <p>Event: Board Members and officers do not have appropriate skills or knowledge to discharge their responsibilities. Regulatory breach. The Pension Fund's pooled assets are managed inappropriately.</p> <p>Effect: Inappropriate decisions are made leading to a financial impact or a breach of legislation or service not provided in line with best practice and legal requirements. Potential regulatory fines. The financial value of the Pension Fund's assets is impaired.</p>		4	<p>Member and officer experience and knowledge was assembled as part of the MiFID II opt up process and deemed sufficient by all Fund Managers, advisors and counterparties to substantiate opt up to 'professional' client status. Members undertook treasury management training in February 2019. Officers monitor changes in applicable regulations and advise Members accordingly.</p> <p>12 Nov 2020</p>		2	31-Mar-2020	Constant

Action no	Action description	Latest Note			Action owner	Latest Note Date	Due Date
CHB FIB 06a	Training provided to Board Members on a range of investment topics and asset classes on a needs basis. Continued Professional Development (CPD) records maintained and updated annually.	Training record created in support of MiFID II application to professional client status and will be updated annually. <u>Members received training at the June 2020 Financial Investment Board meeting from the Investment Consultant in relation to the Pension Fund Investment Strategy review. Further training was provided by FTSE Russell on the subject of constructing a sustainable index fund in September 2020.</u>			James Graham; Kate Limna	12-Nov-2020	30-Jun-2020
CHB FIB 06b	Job descriptions used at recruitment to attract candidates with skills and experience related to investment finance. The Corporation maintains membership of CIPFA's Pension Network, CIPFA's Treasury Management Network plus the LAPFF, LPFA and PLSA – all providing access to training opportunities via courses, seminars and conferences.	Officers continue to attend training courses, seminars and conferences where deemed appropriate to enhance understanding of markets, financial instruments, regulatory and statutory reporting issues.			Caroline Al-Beyerty; Kate Limna	12-Nov-2020	31-Mar-2021
CHB FIB 06c	Training plans in place for all staff as part of the performance appraisal arrangements, which are reviewed every six months.	Appraisals for all relevant staff are up to date. Appraisals include a review of individual training requirements.			Caroline Al-Beyerty;	12-Nov-2020	31-Mar-2021

			Kate Limna		
CHB FIB 06d	External professional advice sought where required.	Investment consultants provide focused training sessions as and when required. <u>Training was provided on 3 June 2020 when the Investment consultant led a review of the Pension Fund investment strategy. Training was also provided by FTSE Russell on 16 September 2020 on the subject of sustainable index funds.</u>	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021
CHB FIB 06e	The Board maintains regular oversight of the London CIV.	Senior management of the London CIV met the Financial Investment Board in September 2019. Officers monitor developments at the London CIV and report meaningful developments at each Board meeting via a dedicated section of the Pension Fund Investment Monitoring Report (or in between Board meetings if necessary).	James Graham; Kate Limna	12-Nov-2020	31-Mar-2021

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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