Public Document Pack

CITY OF LONDON

Financial Investment Board

Date: **TUESDAY, 30 NOVEMBER 2021**

Time: **11.00 am**

Venue: **COMMITTEE ROOMS - WEST WING, GUILDHALL**

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

Next Meetings: **9 Feb 2022** **31 May 2022**

Enquiries: **Joseph Anstee**
joseph.anstee@cityoflondon.gov.uk

Accessing the virtual public meeting
Members of the public can observe this virtual public meeting at the below link:
https://youtu.be/Ky7UuPqAWAg
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.

Lunch will be served in the Guildhall Club at 1pm

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**

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

3. **MINUTES OF THE PREVIOUS MEETING**
   To agree the public minutes and non-public summary of the meeting held on 14 September 2021.

   For Decision
   (Pages 5 - 8)

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

   For Information
   (Pages 9 - 10)

5. **TREASURY MANAGEMENT UPDATE AS AT 31 OCTOBER 2021**
   Report of the Chamberlain

   For Information
   (Pages 11 - 30)

6. **MID-YEAR TREASURY MANAGEMENT REVIEW 2021/22**
   Report of the Chamberlain

   For Information
   (Pages 31 - 36)

7. **RISK REGISTER FOR FINANCIAL INVESTMENT BOARD**
   Report of the Chamberlain

   For Decision
   (Pages 37 - 54)

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

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

10. **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

11. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the non-public minutes of the meeting held on 14 September 2021.

For Decision
(Pages 55 - 60)

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

For Information
(Pages 61 - 62)

13. **INVESTMENT PERFORMANCE MONITORING REPORTS**

For Information

a) **Quarterly Monitoring Report Q3 2021** (Pages 63 - 82)
Report of Mercer

b) **Performance Monitoring to 30 September 2021: Pension Fund** (Pages 83 - 98)
Report of the Chamberlain

c) **Performance Monitoring to 30 September 2021: City's Cash** (Pages 99 - 112)
Report of the Chamberlain

d) **Performance Monitoring to 30 September 2021: Bridge House Estates** (Pages 113 - 128)
Report of the Chamberlain

14. **LCIV MAC FUND**
Report of the Chamberlain

For Decision
(Pages 129 - 164)

15. **CMA ORDER 2019 - PART 7 COMPLIANCE STATEMENT: INVESTMENT CONSULTANT STRATEGIC OBJECTIVES (LGPS ONLY): REQUEST FOR DELEGATED AUTHORITY**
Report of the Chamberlain

For Decision
(Pages 165 - 170)

16. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2021**
Report of the Chamberlain

For Decision
(Pages 171 - 176)

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

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

FINANCIAL INVESTMENT BOARD

Tuesday, 14 September 2021

Minutes of the hybrid meeting of the Financial Investment Board held at Guildhall, EC2 and via Microsoft Teams on Tuesday, 14 September 2021 at 1.45 pm

Present

Members:
Nicholas Bensted-Smith (Chairman)
Henry Colthurst (Deputy Chairman)
Alderman Prem Goyal
Alderman Robert Howard
Alderman Robert Hughes-Penney
Deputy Clare James
Tim Levene
Deputy Robert Merrett
Deputy Andrien Meyers
John Petrie
Deputy Henry Pollard
James de Sausmarez

Officers:

Joseph Anstee	-	Town Clerk's Department
Caroline Al-Beyerty	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
James Graham	-	Chamberlain's Department
Simi Shah	-	Town Clerk's Department

1. **APOLOGIES**
Apologies for absence were received from Anne Fairweather and Deputy Philip Woodhouse. Apologies for lateness were received from Alderman Robert Howard and Alderman Prem Goyal.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
There were no declarations.

3. **MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the public minutes and non-public summary of the meeting held on 30 June 2021 be agreed as a correct record.

4. **OUTSTANDING ACTIONS**
There were no public outstanding actions.

5. **TREASURY MANAGEMENT UPDATE AS AT 31 JULY 2021**
The Board received a report of the Chamberlain providing a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 2021. The Chamberlain introduced the report and drew Members' attention to the key points. The Board noted that cash balances had increased by £200 million during the reporting period due to the proceeds of private placement borrowing agreed for City's Cash.

In response to a question from a Member regarding a recent investment with Helaba, the Chamberlain advised that in assessing the suitability of the counterparty's inclusion on the Corporation's approved lending list, security and liquidity had been prioritised in accordance with the Treasury Management Code of Practice. The Chamberlain added that whilst bespoke ESG analysis of counterparties had not been undertaken on this occasion, consideration should be given to building this into the treasury management processes. With regards to asset allocation, the Chamberlain advised that this would be driven be security and cashflow requirements.

RESOLVED – That the report be noted.

6. **TREASURY MANAGEMENT OUTTURN 2020/21**
The Board received a report of the Chamberlain outlining the Treasury Management Outturn for 2020/21. The Chamberlain introduced the report, advising that the report was one of three reports required on an annual basis in accordance with CIPFA's Code of Practice on Treasury Management, and outlined treasury activities during the last financial year.

RESOLVED – That the report be noted.

7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions.

8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There was no other business.

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

Item No.	**Paragraph(s) in Schedule 12A**
10 - 14	3
15 - 16	-

10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the non-public minutes of the meeting held on 30 June 2021 be agreed as a correct record.

11. **NON-PUBLIC OUTSTANDING ACTIONS**
The Board received a list of non-public outstanding actions.

12. **CAS: AGREEING TARGETS AND IMPLEMENTATION ACTIONS FOR A NET ZERO PATHWAY FOR FINANCIAL INVESTMENTS FOR EACH FUND**
The Board considered a report of the Chamberlain.

13. **INVESTMENT PERFORMANCE MONITORING REPORTS**

a) **Quarterly Monitoring to 30 June 2021**
The Board received a report of Mercer.

b) **Performance Monitoring to 31 July 2021: Pension Fund**
The Board received a report of the Chamberlain.

c) **Performance Monitoring to 31 July 2021: City's Cash**
The Board received a report of the Chamberlain.

d) **Performance Monitoring to 31 July 2021: Bridge House Estates**
The Board received a report of the Chamberlain.

14. **VALUE FOR MONEY ASSESSMENT**
The Board considered a report of the Chamberlain.

15. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no non-public questions.

16. **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 3.09 pm

Chairman

Contact Officer: Joseph Anstee
joseph.anstee@cityoflondon.gov.uk

This page is intentionally left blank

Financial Investment Board – Outstanding Actions

Item	Date	Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
There are currently no outstanding actions.					

This page is intentionally left blank

Committee: Financial Investment Board	**Dated:** 30 November 2021
Subject: Treasury Management Update as at 31 October 2021	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Information**
Report author: James Graham – Chamberlain's Department	

Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 October 2021. The report includes an update on the current asset allocation of the short term investment portfolio and its performance and also includes the latest cash flow forecast (unchanged from the version reviewed by the Board in September). A monthly investment review report produced by the Corporation's treasury management consultants, Link Asset Services, is included at Appendix 2.

Since the Board last reviewed the treasury position the outlook on interest rates has evolved, with markets now expecting the Bank of England to raise base rates in the coming months. This has allowed the Corporation to obtain higher yields through an increased allocation to fixed term deposits. Officers expect interest income to increase further over the course of 2022 if the expected tightening in monetary policy materialises. The value of the Corporation's short-dated bond fund investments has declined marginally in the reporting period as market rates have increased. These investments remain appropriate for surplus cash balances that can be invested sustainably over the medium term given the expectation for higher returns over this time horizon.

Recommendation

Members are asked to note the report.

Main Report

Background

1. The Financial Investment Board receives an update on the treasury management portfolio at each meeting. Officers have compiled this report to provide additional context to the short-term investment portfolio as at 31 October 2021.

Current Position

2. The treasury management investment portfolio had a market value of £1,219.2m as at 31 October 2021, which is largely unchanged from the balance reported previously as at 31 July 2021 (£1,222.6m).

Asset Allocation

3. In accordance with the Treasury Management Strategy Statement 2021/22, surplus cash is invested first and foremost with the aim of securing the Corporation's financial assets and secondly in line with the organisation's liquidity requirements (i.e. ensuring the cash is available when needed to meet the Corporation's spending obligations). Once these two objectives have been satisfied, the Corporation targets the best returns available in the sterling money markets.

4. A summary of the asset allocation by instrument type as at 31 October 2021 compared to the position previously reported to the Board is displayed in table 1.

Table 1: Asset allocation as at 31 October 2021

	31-Jul-2021		31-Oct-2021	
	£m	%	£m	%
Fixed Term Deposit	335.0	27%	435.0	36%
Notice accounts	310.0	25%	310.0	26%
Short Dated Bond Funds	162.5	13%	160.9	13%
Ultra Short Dated Bond Funds	137.7	11%	137.5	11%
Liquidity Fund	277.5	23%	175.8	14%
Total	**1,222.6**	**100%**	**1,219.2**	**100%**

5. As at 31 October 2021, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks, building societies and local authorities via fixed term deposits (36%) and notice accounts (26%). The allocation to fixed term deposits has increased by £100m over the three months since July as the Corporation has been able to take advantage of higher rates available in the sterling money markets (see figure 1 below and paragraph 9). The increase has been funded via redemptions from lower yielding liquidity funds, which now make up around 14% of the portfolio. These balances are very liquid and can be accessed on the day.

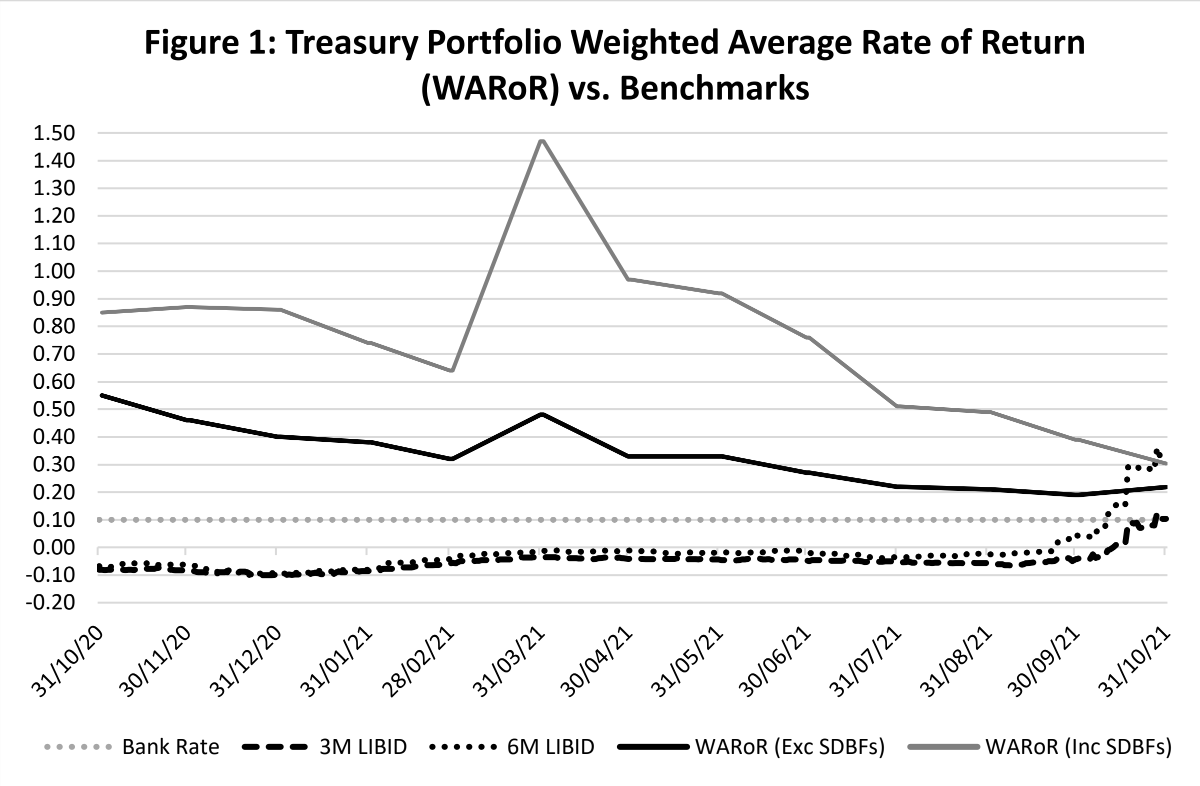
6. 11% is invested in ultra-short dated bond funds. These instruments are also very liquid (funds can be redeemed with two to three days' notice) but their market value is more volatile than liquidity funds. Ultra-short dated bond funds are suitable for surplus cash balances with an investment horizon of six months or more. The remaining portion of the portfolio (13%) continues to be invested in short dated bond funds. These funds are invested in investment grade credit instruments and currently have a duration (weighted average time to maturity) of around 3 years. The value of the short dated bond funds can be volatile in the

short term and should only be used for surplus cash balances with an investment horizon of three years.

7. Further analysis on the composition of the portfolio as at 31 October 2021 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

<u>Performance</u>

8. The weighted average rate of return for the portfolio over the past 12 months is shown in figure 1 below. In this chart, the solid lines represent the level of returns achieved by the Corporation while the "dashed" lines represent suitable performance comparators.



9. Sterling money market rates had been relatively stable for most of 2021 but rose sharply during September and October as shown in figure 1 via the readings for 3-month and 6-month London Interbank Bid Rate (LIBID). This change has been driven by mounting expectations that the Bank of England will being to raise interest rates in the near future to manage inflation. Notwithstanding the change in sentiment, rates remain low by historical standards and below pre-pandemic levels.

10. Returns on the Corporation's short term investment portfolio have trended downwards over much of the year as existing, higher yielding deposits have matured and been replaced with new investments at a lower yield. This is visible in the weighted average return excluding short dated bond funds above (which omits the two longer-term short dated bond fund investments in the portfolio). The downward trend was partially reversed in October as the Corporation capitalised

on an increase in rates. If monetary policy is gradually tightened over the course of 2022 then officers expect this rate of return to steadily increase from current levels.

11. Given the evolving outlook for interest rates, officers have reviewed the competitiveness of the current notice accounts and taken action (i.e. given notice or requested a rate uplift) where appropriate.

12. As month-to-month returns from the ultra-short and short dated bond fund investments can be volatile, for these instruments, officers have used the trailing 12 month total return to 31 October 2021 in calculating the portfolio returns displayed in figure 1. Returns on these investments have slowed over the last six months (as shown in the weighted average rate or return including short dated bond funds in figure 1) as the effects of the strong recovery in mid-2020 have dropped out of the calculation.

13. To aid an effective assessment of performance, table 2 shows the historical return of the ultra-short and short dated bond fund investments on a total return basis over various time horizons under one year.

Table 2: Bond Fund Total Returns as at 31 October 2021

Fund	**1 Month Return (30/09/2021 to 31/10/2021)**	**3 Month Return (31/07/2021 to 31/10/2021)**	**12 Month Return (31/10/2020 to 31/10/2021)**
Federated Hermes Sterling Cash Plus Fund	-0.05%	-0.03%	0.01%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	-0.01%	0.02%	0.17%
Payden Sterling Reserve Fund	-0.16%	-0.26%	0.08%
L&G Short Dated Sterling Corporate Bond Index Fund	-0.60%	-1.01%	0.59%
Royal London Investment Grade Short Dated Credit Fund	-0.55%	-0.89%	1.14%

14. The most conservative fund (Federated) is listed first in table 2 and the longer term investments (L&G and Royal London) are listed at the bottom to the table.

15. The increase in interest rates has had a negative effect on short term performance, although this has occurred after a sustained period of price appreciation, as evidenced by the fact that all funds have produced positive returns over the year to the end of October 2021.

16. As noted above, the capital values of the bond funds – particularly the short-dated bond funds – can be volatile over the short term but they are expected to produce higher returns over the longer term: over the past three years the L&G and Royal London bond funds have generated annualised returns of 2.55% and 3.62%,

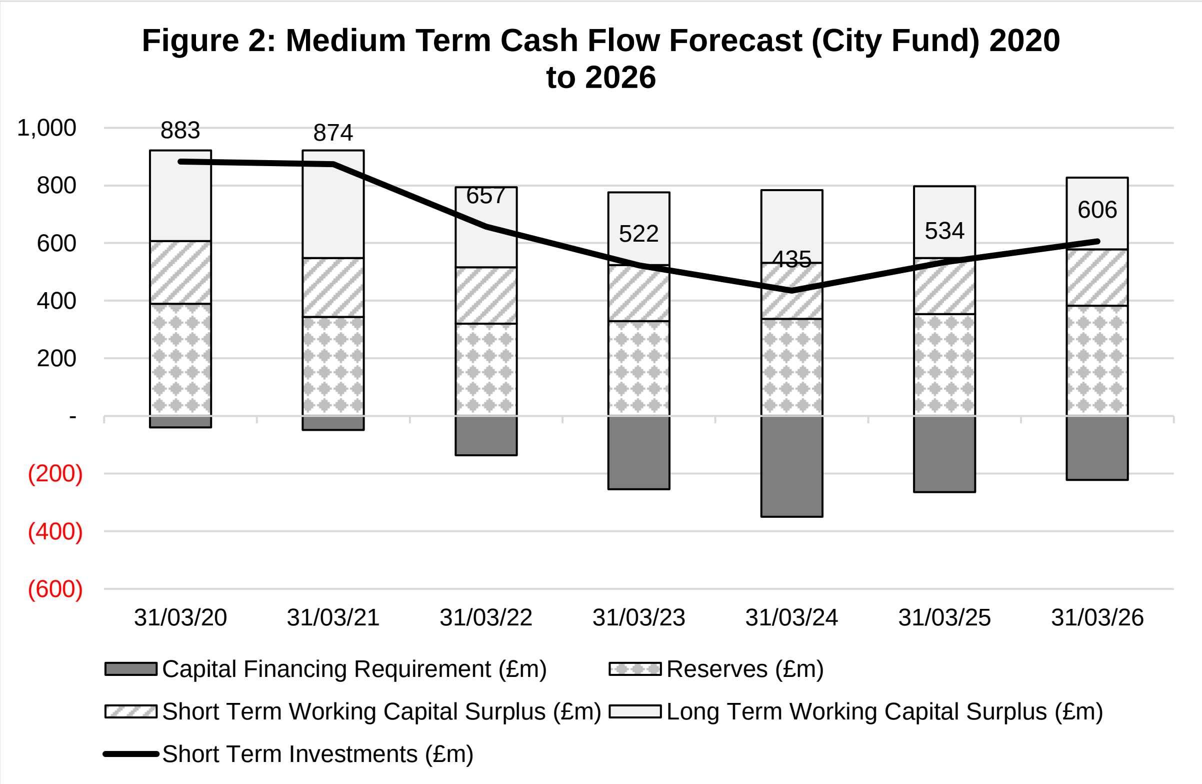
respectively. The Corporation deliberately allocates a small portion of the overall portfolio to these investments - an amount that can sustainably be invested over the medium term.

17. It should also be noted that fluctuations in the market value of investments do not impact the City Fund's revenue position owing to the existence of the IFRS 9 statutory override which English local authorities are required to implement.

Cash Flow Forecast

18. The City Fund's medium-term cash flow forecast is shown below in figure 2. City Fund's cash investments amount to £874m as at 31 March 2021, or 92% of the total cash under management in the treasury portfolio at that time. The remainder belongs to City's Cash (1%), Bridge House Estates (3%) and other bodies (4%).

19. Cash investments (represented by the black line in figure 3) are expected to be below historic levels over the next few years before recovering towards the end of the forecast period.



20. The forecast is unchanged from the projection reported to the Board at its last meeting on 14 September. The forecast will continue to be reviewed by officers in tandem with the medium term financial planning process.

21. While this forecast is based on the City Fund's current financial plans it includes several assumptions and it is unlikely that actual cash balances will materialise exactly as forecast. In particular, Members should note the following:

- Historically planned capital expenditure has been subject to re-profiling ("slippage"). If the City Fund's current capital spending plans are re-profiled during the forecast period then the forecast will shift to the right.
- The forecast will need to be continually updated in line with the medium-term financial planning process and the Corporation's financial decisions.
- Officers also expect to make methodological improvements to the forecast calculation to improve its accuracy.

22. In terms of the key financial assumptions implicit in the forecast, Members may observe that the critical factor driving the forecast is the pace at which the City Fund's capital spending plans are progressed. The forecast assumes spending on the major projects programme (City Fund components) will increase in intensity over the next few years and be substantively complete by the end of 2025/26. The forecast assumes the programme will be funded in the main by a mixture of capital receipts, grant funding, fundraising and internal borrowing (i.e. no external borrowing is assumed).

Conclusion

23. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 October 2021. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's Treasury Management Strategy Statement 2021/22.

24. Since the Board last reviewed the treasury position the outlook on interest rates has evolved, with markets now expecting the Bank of England to raise base rates in the coming months. This has allowed the Corporation to obtain higher yields through an increased allocation to fixed term deposits. Officers expect interest income to increase further over the course of 2022 if the expected tightening in monetary policy materialises. The value of the Corporation's short-dated bond fund investments has declined marginally in the reporting period as market rates have increased. These investments remain appropriate for surplus cash balances that can be invested sustainably over the medium term given the expectation for higher returns over this time horizon.

Appendices

Appendix 1: Counterparty Exposure as at 31 October 2021
Appendix 2: Monthly Investment Analysis Review October 2021

Background Papers

James Graham
Group Accountant – Pensions & Treasury Management
T: 020 7332 1137
E: James.Graham@cityoflondon.gov.uk

APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 OCTOBER 2021

	Counterparty Limit £M	Total Invested as at 31-Oct-21 £M	Average Rate of Return %
TOTAL INVESTED	-	**1,219.2**	**0.30%**
	-	-	
FIXED TERM DEPOSITS			
-			
UK BANKS			
Barclays	100.0	50.0	0.33%
Goldman Sachs	100.0	20.0	0.13%
Lloyds	150.0	40.0	0.10%
NatWest	100.0	100.0	0.23%
		210.0	
BUILDING SOCIETIES			
Leeds	20.0	20.0	0.14%
Nationwide	120.0	40.0	0.09%
		60.0	
FOREIGN BANKS			
Australia & New Zealand	100.0	10.0	0.12%
Helaba	100.0	100.0	0.30%
National Australia Bank	100.0	45.0	0.49%
		155.0	
LOCAL AUTHORITIES			
Stockport City Council	25.0	10.0	0.10%
		10.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	4.2	0.01%
CCLA - Public Sector Deposit Fund	100.0	54.4	0.03%
Deutsche Global Liquidity Fund	100.0	42.2	0.02%
Federated Prime Liquidity Fund	100.0	24.3	0.01%
Invesco Sterling Liquidity Fund	100.0	50.7	0.02%
		175.8	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	61.8	0.08%
Aberdeen SLI Short Duration Fund	100.0	50.4	0.17%
Federated Sterling Cash Plus Fund	100.0	25.3	0.01%
		137.5	
SHORT DATED BOND FUNDS			
L&G	100.0	80.4	0.59%
Royal London	100.0	80.5	1.14%
		160.9	

	Counter-party Limit £M	Total Invested as at 31-Oct-21 £M	Average Rate of Return %
NOTICE ACCOUNTS			
Australia and New Zealand 185 Days Account	100.0	90.0	0.28%
Goldman Sachs 185 Days Account	100.0	20.0	0.24%
Goldman Sachs 185 Days Account	100.0	20.0	0.23%
Goldman Sachs 185 Days Account	100.0	20.0	0.23%
Goldman Sachs 270 Days Account	100.0	20.0	0.33%
Lloyds 95 Days Account	150.0	40.0	0.05%
Santander 95 Days Account	100.0	20.0	0.40%
Santander 180 Days Account	100.0	30.0	0.58%
Santander 365 Days Account	100.0	50.0	0.68%
		310.0	
TOTAL		1,219.2	

City of London Corporation

Monthly Investment Analysis Review

October 2021

General Economy

The Flash (i.e. provisional) Manufacturing PMI rose to 57.7 in October from 57.1 in September, exceeding market forecasts of 55.8. This reading pointed to stronger growth in factory activity, boosted by faster rates of new order and employment growth, although manufacturers also reported severe shortages of staff and materials. Similarly, the Flash Services PMI rose to 58.0 in October from 55.4 in September, well above forecasts of 54.5. This represented the fastest expansion in the sector since July following a boost to client spending following the roll back of pandemic restrictions. As a result of the rises in both indices, the Flash Composite PMI (which incorporates both sectors), rose to 56.8 in October from 54.9 the previous month, exceeding market expectations of 54.0. By contrast, the Construction PMI (which is released one month behind), eased to 52.6 in September from 55.2 in August, mirroring the falls recorded by the Manufacturing and Services PMIs that month. The latest reading signalled only a moderate expansion of total construction output and the weakest speed of recovery for eight months, due to a combination of supply chain issues and softer demand.

UK GDP data, meanwhile, confirmed that the economy expanded 0.4% m/m during August, matching market expectations. The improvement compared to July's downwardly revised 0.1% m/m contraction (previously reported as a 0.1% m/m rise), and may well have been influenced by the fading impact of the "pingdemic", which saw more than 1 million people self isolating at one stage. However, falls in car production (-14.5% since February) and construction (-0.2% m/m) suggested that product and labour shortages also hampered activity. They may also have contributed to the 2% m/m fall in exports, which resulted in the UK's trade deficit widening to £3.7 billion in August from a downwardly revised £2.9 billion in July.

Unemployment data, meanwhile, continued to confirm the tightening of the labour market reported in the PMI surveys. Employment rose by 235,000 in the three months to August, exceeding the 109,000 rise in the labour force. As a result, the unemployment rate fell to 4.5% in the three months to August, representing the lowest in a year. The fall of 51,100 in the claimant count for September, meanwhile, provided an early indication that unemployment did not rise materially ahead of the end of the furlough scheme. Instead, the rise in job vacancies to a new record 1.1 million in the three months to September suggests that demand for workers remained strong as furlough's end approached. Consistent with this ongoing strength, average weekly earnings (including bonuses) rose by 7.2% y/y in the three months to August. Although the reversal of effects from changing labour force composition and the furlough scheme meant the rise was lower than the 8.3% gain reported in July, the ONS noted that average earnings growth excluding these distortions accelerated from a range of 3.6% - 5.1% y/y in July to 4.1% - 5.6% y/y in August.

Base effects, this time resulting from the unwinding of the Eat Out to Help Out scheme last year, also had an impact on UK inflation, which edged down to 3.1% y/y in September from 3.2% in August. On the month, the Consumer Price Index rose 0.3% compared to 0.7% m/m in August as restaurant and café prices rose just 0.3% m/m compared to 4.1% last September. However, the 12% price in utility prices scheduled for October 1st looks set to drive inflation higher in next month's release. This prospect and the potential for labour market supply to fail to match demand saw MPC Governor Bailey acknowledge during the month that the Bank of England would have to tighten policy if inflation expectations rose. As a result, Gilt yields rose throughout the month until Budget day, as investors increasingly expected Bank Rate to be raised to 0.25% following November's MPC policy meeting, enroute to over 1% in 2022.

Whilst inflationary pressures appear to be rising, September's unexpected 0.4% m/m fall in retail sales (which represented the fifth

consecutive monthly fall), suggests that consumer spending is continuing to slow. The scale of the slowdown was evident from the detail of the report, which revealed that spending on fuel rose 2.9% m/m, prompted by the month's petrol crisis. Excluding fuel, retail sales fell by 0.6% m/m and are now 1.3% lower than a year ago. Concerns over fuel and food shortages, surging inflation squeezing household budgets, the likelihood of interest rate rises impacting the cost of borrowing, and climbing Covid-19 rates all conspired, meanwhile, to cause the GfK Consumer Confidence index to fall to -17 in October from -13 in September.
The UK's public sector net borrowing (excluding public sector banks) reached £21.8 billion in September, representing the second-highest September borrowing since monthly records began in 1993. However, this was less than both consensus forecasts of £22.6 billion and forecasts from the Office for Budget Responsibility (OBR) of £25.9 billion. Indeed, borrowing has been £43.5 billion less than expected by the OBR in the year to date. As a result, the government surprised investors by announcing in the budget that borrowing would be £198.4 billion during 2021/22, £57.8 billion less than forecast in April. This surprisingly large reduction in forecast borrowing saw Gilt yields fall at month end, reversing much of the month's previous rise.
In the US, non-farm payrolls rose by only 194,000 in September, the lowest so far this year and well below forecasts of 500,000. However, the Bureau of Labor Statistics noted that normal seasonal hiring and layoff patterns had been distorted by the pandemic. Partly as a result of the gain, the US unemployment rate fell to 4.8% in September from 5.2% in August, although it remains well above the 3.5% rate observed pre-Covid. The US economy, meanwhile, expanded at an annualized 2% rate in Q3, well below market forecasts of 2.7%. The slowdown was attributed to the fading of past government stimulus, a surge in Covid 19 cases and the impact of global supply constraints weighing on consumption and production. Against this backdrop, price growth (as measured by the Federal Reserve's preferred Personal Consumption Expenditure deflator) remained at 4.4% y/y in September, matching market forecasts.
Supply chain disruptions and raw material shortages also weighed on Q3 Eurozone growth, although it still reached a better than forecast 2.2% q/q due to strong domestic demand and exports. Surging energy costs and supply shortages also contributed to inflation rising to 4.1% y/y according to October's Flash estimate. Nevertheless, the ECB left interest rates unchanged during its October meeting, believing that the outlook for inflation over the medium term remains subdued. Policymakers also reaffirmed that their view that that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the PEPP than made in the second and third quarters of this year.

Housing

According to the Halifax House Price Index, house prices rose 1.7% m/m in September ahead of the end of the Stamp Duty holiday. This increase saw yearly price growth accelerate to 7.4% in September from 7.2% in August.

Currency

The increasing prospect of Bank Rate rises saw Sterling rise against both the US Dollar and the Euro during the month.

October	Start	End	High	Low
GBP/USD	$1.3539	$1.3677	$1.3821	$1.3539
GBP/EUR	€1.1675	€1.1800	€1.1895	€1.1675

Forecast

Link Group left its forecasts unchanged during the month.

Bank Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.10%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-

City of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	4,200,000	0.01%		MMF	AAAm	
MMF CCLA	54,400,000	0.03%		MMF	AAAm	
MMF Deutsche	42,200,000	0.02%		MMF	AAAm	
MMF Federated Investors (UK)	24,300,000	0.01%		MMF	AAAm	
MMF Invesco	50,700,000	0.02%		MMF	AAAm	
USDBF Aberdeen Standard Investments	50,406,582	0.17%		USDBF	AAAf	
USDBF Federated Sterling Cash Plus Fund	25,343,989	0.01%		USDBF	AAAf	
USDBF Payden Sterling Reserve Fund	61,780,663	0.08%		USDBF	AAAf	
Goldman Sachs International Bank	20,000,000	0.13%	08/12/2020	08/12/2021	A+	0.005%
Lloyds Bank Plc (RFB)	20,000,000	0.10%	16/12/2020	16/12/2021	A+	0.006%
Lloyds Bank Plc (RFB)	20,000,000	0.10%	29/12/2020	29/12/2021	A+	0.008%
Nationwide Building Society	20,000,000	0.10%	29/06/2021	29/12/2021	A	0.008%
Nationwide Building Society	20,000,000	0.07%	07/07/2021	07/01/2022	A	0.009%
Lloyds Bank Plc (RFB)	40,000,000	0.05%		Call95	A+	0.012%
Santander UK PLC	20,000,000	0.40%		Call95	A	0.012%
Australia and New Zealand Banking Group Ltd	10,000,000	0.12%	08/02/2021	08/02/2022	A+	0.013%
Stockport Metropolitan Borough Council	10,000,000	0.10%	26/02/2021	25/02/2022	AA-	0.007%
National Westminster Bank Plc (RFB)	20,000,000	0.19%	26/03/2021	28/03/2022	A	0.019%
Santander UK PLC	30,000,000	0.58%		Call180	A	0.023%
Australia and New Zealand Banking Group Ltd	90,000,000	0.28%		Call185	A+	0.024%
Goldman Sachs International Bank	20,000,000	0.24%		Call185	A+	0.024%
Goldman Sachs International Bank	20,000,000	0.23%		Call185	A+	0.024%
Goldman Sachs International Bank	20,000,000	0.23%		Call185	A+	0.024%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	25,000,000	0.18%	13/08/2021	13/05/2022	A-	0.025%
Barclays Bank Plc (NRFB)	25,000,000	0.28%	27/09/2021	27/06/2022	A	0.031%
Leeds Building Society	20,000,000	0.14%	02/07/2021	01/07/2022	A-	0.031%
National Westminster Bank Plc (RFB)	20,000,000	0.17%	05/07/2021	05/07/2022	A	0.032%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	25,000,000	0.16%	16/07/2021	18/07/2022	A-	0.034%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	25,000,000	0.16%	16/07/2021	18/07/2022	A-	0.034%
Goldman Sachs International Bank	20,000,000	0.33%		Call270	A+	0.035%
National Westminster Bank Plc (RFB)	25,000,000	0.18%	09/08/2021	09/08/2022	A	0.036%
National Westminster Bank Plc (RFB)	25,000,000	0.19%	13/08/2021	12/08/2022	A	0.037%
Barclays Bank Plc (NRFB)	25,000,000	0.37%	01/10/2021	03/10/2022	A	0.044%
National Australia Bank Ltd	25,000,000	0.49%	13/10/2021	13/10/2022	A+	0.045%
National Australia Bank Ltd	20,000,000	0.50%	15/10/2021	17/10/2022	A+	0.045%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	25,000,000	0.69%	26/10/2021	26/10/2022	A-	0.046%
National Westminster Bank Plc (RFB)	10,000,000	0.67%	26/10/2021	26/10/2022	A	0.046%
Santander UK PLC	50,000,000	0.68%		Call365	A	0.047%

City of London Corporation

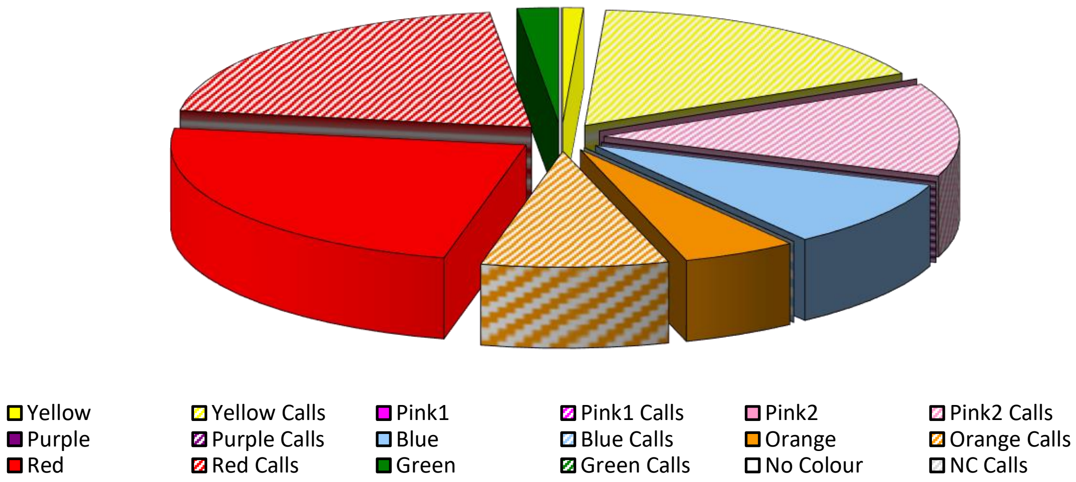
Current Investment List

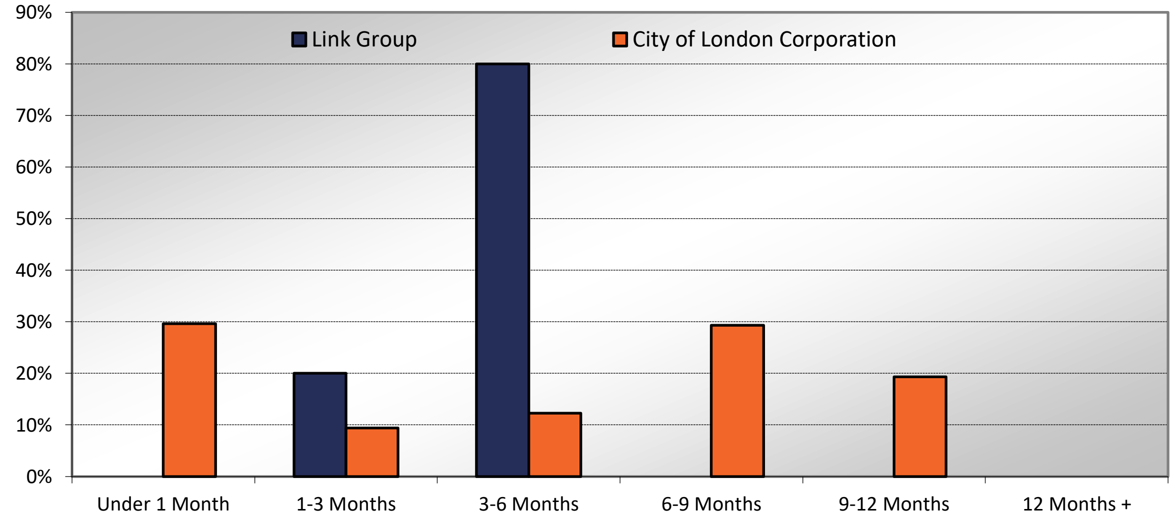
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
L&G	80,389,286	0.59%				
ROYAL LONDON	80,523,996	1.14%				
Total Investments	**£1,219,244,516**	**0.30%**				
Total Investments - excluding Funds	**£1,058,331,234**	**0.22%**				0.027%
Total Investments - Funds Only	**£160,913,282**	**0.87%**				

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio’s historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

City of London Corporation

Portfolio Composition by Link Group's Suggested Lending Criteria





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

Portfolios weighted average risk number = 3.54

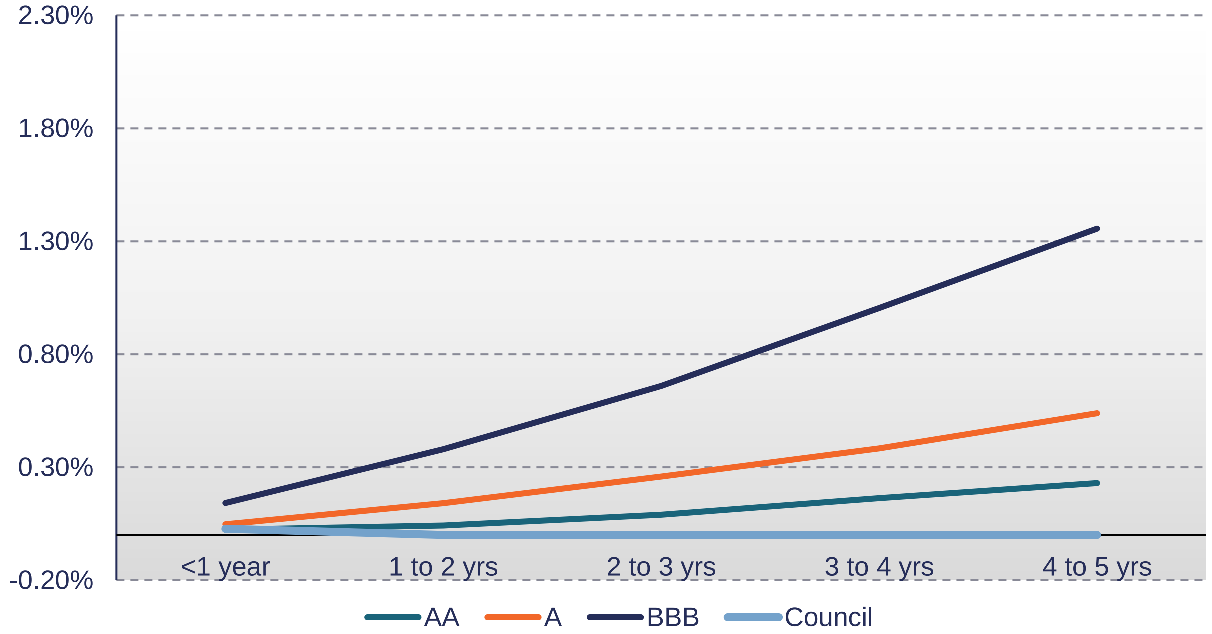
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	17.56%	£185,800,000	94.62%	£175,800,000	16.61%	0.03%	6	20	117	364
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	13.00%	£137,531,234	100.00%	£137,531,234	13.00%	0.10%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	9.45%	£100,000,000	0.00%	£0	0.00%	0.23%	257	365	257	365
Orange	13.70%	£145,000,000	62.07%	£90,000,000	8.50%	0.34%	230	254	304	366
Red	44.41%	£470,000,000	46.81%	£220,000,000	20.79%	0.29%	197	267	187	318
Green	1.89%	£20,000,000	0.00%	£0	0.00%	0.14%	243	364	243	364
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£1,058,331,234**	**58.90%**	**£623,331,234**	**58.90%**	**0.22%**	**149**	**198**	**219**	**338**

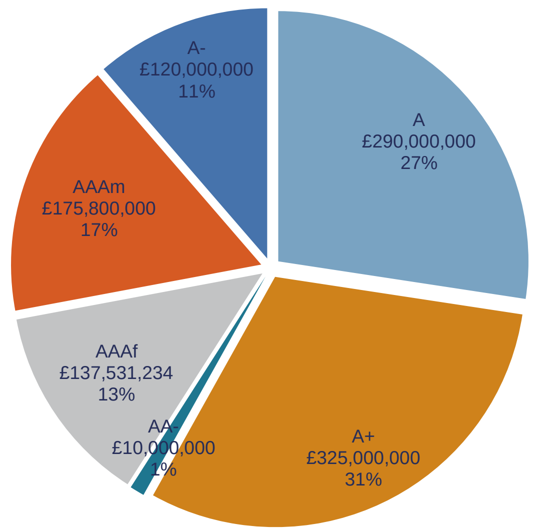
City of London Corporation

Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



Rating Exposure



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%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%
Council	0.03%	0.00%	0.00%	0.00%	0.00%

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.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio’s historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
01/10/2021	1847	BNP Paribas Fortis	Belgium	The Outlook on the Long Term Rating was changed to Stable from Negative.
12/10/2021	1851	KBC Bank N.V.	Belgium	The Outlook on the Long Term Rating was changed to Stable from Negative.
13/10/2021	1852	Australia Sovereign Rating	Australia	The Outlook on the Sovereign Rating was changed to Stable from Negative.
22/10/2021	1853	Qatar National Bank	Qatar	The Stable Outlook on the Long Term Rating was removed and the Long Term and Short Term Ratings were placed on Negative Watch.
28/10/2021	1854	Credit Agricole Corporate and Investment Bank	France	The Outlook on the Long Term Rating was changed to Stable from Negative.
28/10/2021	1854	Credit Agricole S.A.	France	The Outlook on the Long Term Rating was changed to Stable from Negative.

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
04/10/2021	1848	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	Germany	The Long Term Rating was downgraded to 'Aa2' from 'Aa1' and the Outlook on the Long Term Rating was changed to Stable from Negative.
05/10/2021	1849	Skandinaviska Enskilda Banken AB	Sweden	The Long Term Rating was downgraded to 'Aa3' from 'Aa2'.
05/10/2021	1849	Swedbank AB	Sweden	The Stable Outlook on the Long Term Rating was removed and the Long Term Rating was placed on Negative Watch.
08/10/2021	1850	Royal Bank of Canada	Canada	The Stable Outlook on the Long Term Rating was removed and the Long Term Rating was placed on Positive Watch.

City of London Corporation

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
29/10/2021	1855	Nationwide Building Society	United Kingdom	The Long Term Rating was upgraded to 'A+' from 'A' and the Outlook on the Long Term Rating was changed to Stable from Positive.

This page is intentionally left blank

Committee: Financial Investment Board Audit and Risk Management Committee	Dated: 30 November 2021 18 January 2022
Subject: Mid-Year Treasury Management Review 2021/22	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Information**
Report author: James Graham, Chamberlain's	

Summary

The Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 was approved by the Financial Investment Board and the Finance Committee in February 2021 and by the Court of Common Council on 4 March 2021 and came into effect on 1 April 2021.

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 to take account of economic and market developments over the first half of the year, particularly with regard to changes in interest rate expectations.
- The revised path for interest rates over the medium term provided by Link Asset Services now involves a steeper trajectory for interest rates: the forecast projects a first increase in Bank Rate to 0.25% by the end of the calendar year 2021 followed by successive incremental increases over the coming years leaving Bank Rate at around 1.25% at the end of 2024/25 (see Appendix).
- Under this scenario of modest increases, investment returns are still expected to remain very low relative to historical standards, albeit marginally higher than anticipated at the start 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 2021, the City had cash balances totalling £1,223.4m. Most of the balances are held for payment to third parties or are restricted reserves. Cash balances are expected to reduce meaningfully over the medium term as spending on the capital programme increases.
- No approved counterparty limits were breached during the first half of 2021/22 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. In September 2019 the City issued fixed rate market debt on behalf of City's Cash via a private placement, which will support that entity's long term capital financing plans. The first tranche of borrowing proceeds of £250M were received in September 2019. The second tranche of borrowing proceeds of £200M were received in July 2021. The City has not undertaken any new borrowing in the first half of this year and does not at this stage anticipate any external borrowing in the remainder of 2021/22.

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. Quarterly growth in the UK economy was +5.5% in Q2 2021 (April to June) and is estimated to have slowed to +1.3% in Q3 (July to September). In common with other economies around the globe re-opening from lockdowns, the pace of recovery has been hampered by supply shortages which has led to price increases across goods, services, fuel and labour. For most of the year the Bank of England's Monetary Policy Committee (MPC) emphasised the transitory nature of this inflation, expecting price rises to dissipate once the economy automatically readjusted. However, at its September meeting, in a marked shift

in tone, the MPC noted that some tightening in monetary policy was now on the horizon which would be needed to bring inflation to the 2% target over the medium term. In response, markets began to price in an immediate increase in rates ahead of the MPC's next meeting in November.

6. In reality, when the MPC met on 2nd November it voted by to 7-2 to maintain Bank Rate at 0.10%. The Bank noted some softening in consumer demand and also observed the unusual uncertainty around the outlook for the labour market given that the Government's furlough scheme had only recently been brought to a close. The central bank faces a difficult balancing act as it needs to control inflation but also avoid smothering recovering GDP by raising interest rates too soon.

7. Longer term interest rates, represented by gilt yields (from which PWLB rates are priced), have been relatively volatile over the course of 2021 to date. During September, gilt yields from 5 – 50 years rose following the relatively hawkish tone of the MPC's minutes on 23rd September. Gilt yields then fell sharply after the UK Government's Budget on 27th October cancelled nearly all gilt sales until the end of the financial year.

8. The Corporation's treasury consultants, Link Asset Services, have provided an updated interest rate forecast which is attached as an Appendix. Considering the above, officers expect that the Bank will now start to tighten monetary policy and raise interest rates earlier than expected at the start of the year. The forecasts also include a steady, but slow, rise in gilt yields during the forecast period to March 2025.

Treasury Management Strategy Statement and Annual Investment Strategy Update

9. The Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 was approved by the Financial Investment Board (9 February 2021), the Finance Committee (16 February 2021) and the Court of Common Council (4 March 2021).

10. Having considered the strategy, officers believe that it remains appropriate for the second half of 2021/22 and do not recommend any fundamental changes are made.

<u>Investment Strategy</u>

11. The Corporation held £1,223.4m of investments as at 30 September 2021 (£947.1m at 31 March 2021). 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 and in the first half of 2021/22 which is yet to be applied to capital spending). As the Corporation's capital programme progresses, cash balances are projected to decline as internal borrowing increases (see paragraph 20 below). The weighted average rate of return on the City's treasury management portfolio at the end of September was 0.39%.

12. In accordance with the CIPFA Treasury Management Code of Practice, the Corporation's investment priorities are:

- Security of capital
- Liquidity
- Yield

13. 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.

14. Over the last decade interest rates have been grounded at historically low levels, with the Bank Rate currently set at 0.10%. At the outset of the year, the Corporation estimated modest increases in short term interest rates over the medium term. Since the original strategy was written, economic developments domestically and globally particularly concerning inflation, have raised expectations that central banks (including the Bank of England) will have to raise policy rates earlier than previously expected (see above).

15. Consequently the revised path for interest rates over the medium term provided by Link Asset Services now involves a steeper trajectory for interest rates. The forecast projects a first increase in Bank Rate to 0.25% by the end of the calendar year followed by successive incremental increases over the coming years leaving Bank Rate at around 1.25% at the end of 2024/25 (see Appendix). Under this scenario of modest increases, investment returns are still expected to remain very low relative to historical standards, albeit marginally higher than anticipated at the start of the year.

16. The actual path of interest rates over the coming years could deviate markedly from this central expectation, which is subject to a high level of uncertainty. Key risks to the forecast are as follows:

    - Slowing economic growth (this could create a stagflation type dilemma for the Bank of England if inflation persists which would need to focus on either combating inflation or supporting economic growth by keeping rates low).
    - Whether or not supply shortages persist.
    - Rising energy prices limiting consumer spending.
    - Whether consumers are prepared to spend some of the £160bn of excess savings generated during the pandemic.
    - How the labour market evolves in the context of the end of the furlough scheme and labour supply shortages in various sectors.
    - Further mutations in the Covid virus.

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 2021/22 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.

Borrowing Strategy

City Fund

19. 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 2021/22.

20. Although the City Fund is forecast to have a growing capital financing requirement forecast in the years ahead, it expects to be able to fund this in the short term via internal borrowing. Entering into new external borrowing now would increase the Corporation's revenue pressures in the immediate term (i.e. there would be a cost of carry). The outlook for interest rates indicates a slightly steeper path for borrowing costs over the years ahead compared to the position set out in the original strategy. Nonetheless given the substantial cash balances the organisation holds, officers recommend that no new borrowing is undertaken for now. Officers will continue to review this position in light of changing market conditions.

City's Cash

21. City's Cash issued £450m of market debt in 2019/20, £200m of which was deferred for receipt until 2021/22. The Corporation took receipt of these borrowing proceeds in July this year and they are currently held in the short term investments portfolio until required by the capital programme. By deferring receipt of this borrowing until 2021, the City avoided paying additional interest costs whilst at the same time securing fixed rate borrowing on competitive terms. There are no plans to undertake any further borrowing on behalf of City's Cash in the second half of the year.

Conclusion

22. The City has effectively executed the 2021/22 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 2021 - 2025

James Graham
Group Accountant – Pensions & Treasury Management
T: 020 7332 1137
E: James.Graham@cityoflondon.gov.uk

APPENDIX: Interest Rate Forecasts 2021 – 2025

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 8.11.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

Bank Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	0.10%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%
Capital Economics	0.10%	0.25%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	-

5yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	1.41%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%
Capital Economics	1.41%	1.60%	1.70%	1.80%	1.90%	2.10%	2.10%	2.10%	2.10%	2.10%	-

10yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	1.68%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%
Capital Economics	1.68%	1.80%	2.00%	2.10%	2.20%	2.30%	2.30%	2.30%	2.30%	2.30%	-

25yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	1.90%	2.10%	2.20%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
Capital Economics	1.90%	2.10%	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.80%	2.90%	-

50yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	1.63%	1.90%	2.00%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%
Capital Economics	1.63%	1.90%	2.10%	2.30%	2.40%	2.60%	2.60%	2.70%	2.70%	2.70%	-

Committee: Financial Investment Board	Dated: 30 November 2021
Subject: Risk Register for Financial Investment Board	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Decision**
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 all risks are maintained at their existing levels with the exception of risk 7 (failure to discharge responsible investment duties) which has been revised downwards in light of the considerable work that the Board has undertaken over the last six months to measure and mitigate climate risk in the portfolios.

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.

Responsibility for managing the financial investments of the Bridge House Estates transferred to the newly constituted Bridge House Estates Board on 15 April 2021. That body is currently reviewing the investment arrangements for the charity. The Financial Investment Board's Risk Register still references risks associated with Bridge House Estates' investments, but the narrative notes explain the change in governance arrangements. It is anticipated that the Risk Register will need to be reviewed once the BHE Board has concluded its review of the charity's investment arrangements.

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 20 May 2021, 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

<u>Table 1: Risk Summary</u>

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 03	Service provider failure - Pension Fund, City's Cash and Bridge House Estates	4			
CHB FIB 05	Insufficient Cash - Treasury Management	4			
CHB FIB 06	Governance	4			
CHB FIB 07	Failure to discharge responsible investment duties	4			

5. The Risk Register contains seven risks which are summarised above. In the table, “Current Risk Score indicator” displays the current “RAG” rating for each risk, “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.

6. Officers have reviewed the Risk Register and consider that the risk environment is largely unchanged since the Board last reviewed the Register in May 2021. The exception to this is risk 7 (failure to discharge responsible investment duties), where the score has been revised downwards in light of the considerable work that the Board has undertaken over the last six months to measure and mitigate climate risk in the portfolios. This reduces the likelihood of this risk materialising and there the score has been reduced from “6” to “4”. The scores for all 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.

7. As a result of the review, officers consider that the three 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.

8. 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.

9. Responsibility for managing the financial investments of the Bridge House Estates transferred to the newly constituted Bridge House Estates Board on 15 April 2021. That body is currently reviewing the investment arrangements for the charity. The Financial Investment Board’s Risk Register still references risks associated with Bridge house Estates’ investments, but the narrative notes explain the change in governance arrangements. It is anticipated that the Risk Register will need to be reviewed once the BHE Board has concluded its review of the charity’s investment arrangements.

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
Group Accountant – Pensions & Treasury Management
Chamberlains Department

T: 020 7332 1137
E: james.graham@cityoflondon.gov.uk

Appendix 1

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 find 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 find 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

		Impact			
	X	Minor (1)	Serious (2)	Major (4)	Extreme (8)
Likelihood	Likely (4)	**4 Green**	**8 Amber**	**16 Red**	**32 Red**
	Possible (3)	**3 Green**	**6 Amber**	**12 Amber**	**24 Red**
	Unlikely (2)	**2 Green**	**4 Green**	**8 Amber**	**16 Red**
	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

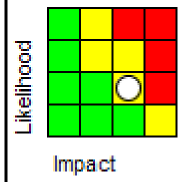
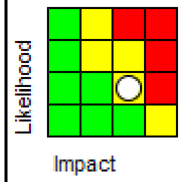
October 2015

This page is intentionally left blank

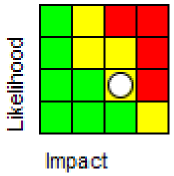
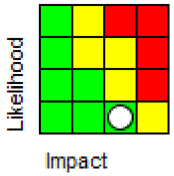
CHB FIB Detailed risk register EXCLUDING COMPLETED ACTIONS

Report Author: James Graham
Generated on: 19 November 2021

Rows are sorted by Risk Score

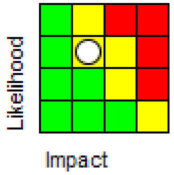
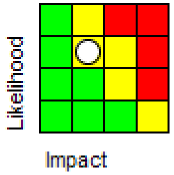
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 01 Insufficient assets - Pension Fund, City's Cash and Bridge House Estates 08-Mar-2018 Caroline Al-Beyerty	**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. **Event:** There are insufficient assets to meet liabilities or expenditure requirements. **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.		**8**	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 have performed well since the last register update. All three Funds are currently meeting their absolute return targets over all time horizons and have also either outperformed or matched their asset allocation targets over the long term. The score for this risk has been maintained to reflect the judgement that the likelihood of this risk materialising is "unlikely". **19 Nov 2021**		**8**	31-Mar-2022	Constant

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 investment strategy was reviewed following the 2019 triennial valuation and approved by the Financial Investment Board on 13 July 2020. The next strategy review is scheduled to take place after the 2022 triennial valuation. The Bridge House Estates investment strategy is due to be reviewed by the Bridge House Estates Board during the course of an overall review of the charity's investment arrangements. The City's Cash investment strategy is expected to be reviewed following the completion of the medium term financial planning process.	Caroline Al-Beyerty; Kate Limna	19-Nov-2021	31-Mar-2022
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	19-Nov-2021	31-Mar-2022

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/Risk Approach	Current Risk score change indicator
CHB FIB 04 Counterparty failure - Treasury Management 08-Mar-2018 Caroline Al-Beyerty	**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.		**8**	The current Treasury Management Strategy restricts lending to high-quality counterparties and remains fit for purpose. External credit ratings for existing counterparties are currently at acceptable levels and credit default swap prices for the existing counterparties (where available) remain within a tolerable range. **19 Nov 2021**		**4**	31-Mar-2022	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.	Independent analysis and consultation with treasury investment advisor when adding additional counterparties. Where the Corporation invests in money market funds, officers have increased monitoring of the funds' 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. The Corporation's short dated bond fund investments are more sensitive to changes in economic conditions and performance is more volatile. The short-dated bond fund investments are much longer term in nature and therefore the Corporation has a greater tolerance for volatility in returns. Officers also continue to monitor changes in the credit standing of direct counterparties via ratings changes from the three main credit rating agencies and other news.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022

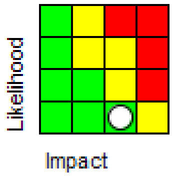
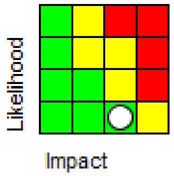
CHB FIB 04b	When lending directly to counterparties, ensure they meet the minimum credit criteria as set out in the most recent Treasury Management Strategy Statement.	All lending continues to be conducted within the parameters of the 2021/22 Treasury Management Strategy Statement as agreed by Court of Common Council on 4th March 2021. Additionally, officers have implemented financial metric-based criteria for determining the eligibility of local authority borrowers. When onboarding new financial institutions, officers review banks' financial standing including standard financial reporting ratios for assessing capitalisation and liquidity.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022
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	19-Nov-2021	31-Mar-2022

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/Risk Approach	Current Risk score change indicator
CHB FIB 02 Targeted returns - Pension Fund, City's Cash and Bridge House Estates Page 47 08-Mar-2018 Caroline Al-Beyerty	**Cause:** Fund managers fail to achieve the targeted investment returns because • 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 **Event:** Failure to be seen to manage the funds responsibly. **Effect:** Supervisory intervention over management of the Funds.		**6**	The performance of fund managers and their aggregate performance is reported against target to each Financial Investment Board. The Board sets a diversified investment strategy to mitigate volatility and as such it expects different parts of the strategy to outperform at different times. Most appointed 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. **19 Nov 2021**		**6**	31-Mar-2022	Constant

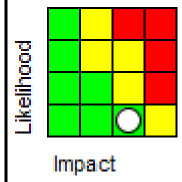
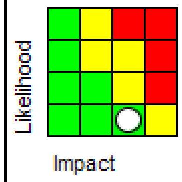
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 02a	Investment managers' performance and their aggregate performance is measured against appropriate benchmarks and monitored by the Financial Investment Board throughout the year. It is supplemented by market insight from the Corporation's investment consultants which provides peer group comparisons; checks on movement of key	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 2021. Since the Risk Register was last review in May 2021, investment performance has been positive overall across the three main funds. Member-level meetings have been arranged with the London CIV and Pyrford for December 2021.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022

	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.				

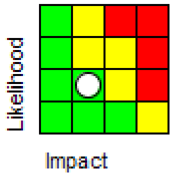
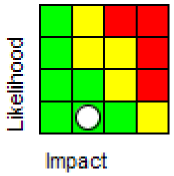
Page 48

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/Risk Approach	Current Risk score change indicator
CHB FIB 03 Service provider failure - Pension Fund, City's Cash and Bridge House Estates 08-Mar-2018 Caroline Al-Beyerty	**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.		**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. **19 Nov 2021**		**4**	31-Mar-2022	Constant

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 contract was recently re-tendered via the National LGPS procurement framework. Following a rigorous and competitive exercise Mercer were appointed to the role in October 2021.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022
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. Officers have reviewed the findings of the reports and remain satisfied with the control environments operated by the Corporation's appointed asset managers.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022
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	19-Nov-2021	31-Mar-2022

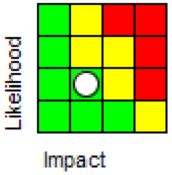
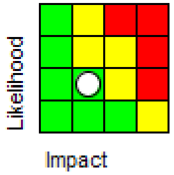
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 05 Insufficient Cash - Treasury Management 08-Mar-2018 Caroline Al-Beyerty	**Cause:** Inaccurate cash flow modelling for Corporation as a whole. **Event:** There is insufficient cash available to meet day to day obligations. The organisation is forced to liquidate long term investment assets without adequate planning or fails to identify external borrowing requirements. **Effect:** Overdrawn position incurs unnecessary expenditure and missed payments damage the Corporation's reputation. Inefficient treasury management decisions increase costs.		**4**	Officers continue to maintain a cash flow model projecting the Corporation's combined known and unknown cash flow requirements for the forthcoming year on an on-going basis. Cash flow monitoring is regularly monitored and short-term cash balances are invested over appropriate time horizons. **19 Nov 2021**		**4**	31-Mar-2022	Constant

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	19-Nov-2021	31-Mar-2022
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 have developed a medium-term cash flow forecast based on City Fund's projected balance sheet. This forecast will be updated in line with the evolution of the medium term financial plan.		19-Nov-2021	31-Jan-2022

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/Risk Approach	Current Risk score change indicator
CHB FIB 06 Governance 08-Mar-2018 Caroline Al-Beyerty	**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. **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. **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.		4	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 most recently undertook treasury management training in February 2019; investment strategy training in June 2020; sustainable index training in June and September 2020; <u>and further responsible investment/climate risk training in Q2 2021.</u> Members also routinely receive advice from the Investment Consultant at all Board meetings. Officers monitor changes in applicable regulations and advise Members accordingly. **<u>19 Nov 2021</u>**		2	31-Mar-2022	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. Recent training delivered to Members of the Board has included treasury management in February 2019 via the treasury consultant; investment strategy training in June 2020 from the Investment Consultant in relation to the Pension Fund Investment Strategy review; sustainable investment implementation from FTSE Russell in September 2020; <u>and climate risk training from various sessions led by Aon and Carbon Tracker in Q2 2021.</u>	James Graham; Kate Limna	<u>19-Nov-2021</u>	31-Mar-2022

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	19-Nov-2021	31-Mar-2022
CHB FIB 06c	Training plans in place for all staff as part of the performance appraisal arrangements, which are reviewed every six months.	Performance and development appraisals continue to be carried out in line with corporate policy.	Caroline Al-Beyerty; Kate Limna	19-Nov-2021	31-Mar-2022
CHB FIB 06d	External professional advice sought where required.	Investment consultants provide focused training sessions as and when required. 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 17 June and 16 September 2020 on the subject of sustainable index funds. More recently, training around climate risk was provided by Aon and Carbon Tracker via a programme of sessions through Q2 2021.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022
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). A Member-level meeting with representatives of the London CIV has been arranged for 13 December.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022

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/Risk Approach	Current Risk score change indicator
CHB FIB 07 Failure to discharge responsible investment duties	**Cause:** Insufficient attention is paid to the environmental, social and governance (ESG) dimensions of the Corporation's financial investments. **Event:** The Corporations' financial investments include an underappreciated exposure to negative ESG risks and the means to effectively manage such risks is not understood. **Effect:** The Corporation suffers reputational or financial damage.		**4**	The Board has formally recognised its asset stewardship role and the need to manage ESG risks through its Responsible Investment Policy which also outlines the Board's approach in this area. The City of London Corporation is a signatory to the Principles for Responsible Investment. The Financial Investment Board has undertaken an in depth review of its climate risk exposure during the course of 2021 resulting in a commitment to achieve net zero carbon emissions by 2040 across the portfolios together with the development of interim goals via a transition pathway. The current risk score has been changed with the likelihood of this risk materialising now considered to be reduced. This reflects the increased awareness of the risk and associated actions that the Board has developed following the significant amount of work it has undertaken in this area since the last review of the register.		**4**	31-Mar-2022	
20-Jun-2019				**19 Nov 2021**				Decreasing

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due 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.	Officers submitted the latest annual submission to the PRI, which covered the Board's responsible investment activities in the calendar year 2020, ahead of the PRI's deadline on 10 May 2021. Owing to operational issues at the PRI, the Corporation's assessment report is now expected to be received in the first half of 2022 and will be reported to Board at the earliest opportunity.	James Graham; Kate Limna	19-Nov-2021	30-Jun-2022
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. Appointed investment managers submitted climate risk information as part of the transition pathway project in 2021. The Board has established new climate risk expectations for existing and potential investment managers and these will form part of the regular ongoing monitoring of managers' performance. Beyond climate officers have recently written to appointed asset managers requesting further information on their practices with respect to diversity and inclusion. The results of this exercise will initially be used to evaluate managers' maturity both on promoting diversity and inclusion at a firm level and in terms of incorporating these themes into the investment process in order to better manager investment risks.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022
CHB FIB 07e	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 encourage better ESG outcomes amongst its existing managers.	Officers anticipate that the Board will prepare its first Annual Stewardship Report for assessment by the Financial Reporting Council in 2022. The FRC published the first list of successful signatories to the new Code (which raises expectations meaningfully compared to the previous edition) in September 2021. Two third of all applications were successful.		19-Nov-2021	31-Dec-2022
CHB FIB 07f	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.	Since the last review of the register in May, and with the support of a specialist external consultancy firm, the Board has completed an in depth review of its climate risk exposure involving the use of scenario analysis, the development of a transition pathway consistent with a net zero by 2040 commitment, and the establishment of expectations for existing and potential mandates. The transition pathway itself involves a series of specific actions with various deadlines which the Board will target over the coming years. The Board received relevant training through different external consultants during this exercise.		19-Nov-2021	31-Mar-2022

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

Agenda Item 11

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

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

Agenda Item 13a

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

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

Document is Restricted

This page is intentionally left blank

Document is Restricted