



Financial Investment Board

Date: WEDNESDAY, 9 FEBRUARY 2022
Time: 1.45 pm
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: 31 May 2022 5 July 2022

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Accessing the virtual public meeting

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

<https://youtu.be/7yGhIvyH3UQ>

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 for Members 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 30 November 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 DECEMBER 2021**
Report of the Chamberlain
For Information
(Pages 11 - 30)
6. **ANNUAL TREASURY MANAGEMENT STRATEGY 2022/23 - TO FOLLOW**
Report of the Chamberlain
For Decision
7. **AMENDMENT TO RISK REGISTER FOR FINANCIAL INVESTMENT BOARD**
Report of the Chamberlain
For Decision
(Pages 31 - 34)
8. **REPORT OF ACTION TAKEN**
Report of the Town Clerk
For Information
(Pages 35 - 36)
9. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
10. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

11. **EXCLUSION OF THE PUBLIC**

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

For Decision

Part 2 - Non-Public Agenda

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

To agree the non-public minutes of the meeting held on 30 November 2021.

For Decision
(Pages 37 - 42)

13. **NON-PUBLIC OUTSTANDING ACTIONS**

Report of the Town Clerk

For Decision
(Pages 43 - 44)

14. **INVESTMENT PERFORMANCE MONITORING REPORTS**

For Information

- a) **Quarterly Monitoring Report to 31 December 2021** (Pages 45 - 66)
Report of Mercer
- b) **Performance Monitoring to 31 December 2021: Pension Fund** (Pages 67 - 94)
Report of the Chamberlain
- c) **Performance Monitoring to 31 December 2021: City's Cash** (Pages 95 - 108)
Report of the Chamberlain
- d) **Performance Monitoring to 31 December 2021 Bridge House Estates**
(Pages 109 - 124)
Report of the Chamberlain

15. **MANAGER MEETING – FOLLOW UP**

Report of the Chamberlain

For Information
(Pages 125 - 130)

16. **QUARTERLY UPDATE ON FINANCIAL INVESTMENTS WORKSTREAM UNDER THE CLIMATE ACTION STRATEGY**

Report of the Chamberlain

For Information
(Pages 131 - 134)

17. **CHARITIES REVIEW RECOMMENDATION - THE CITY OF LONDON CHARITIES POOL**

Report of the Managing Director of BHE

For Information
(Pages 135 - 148)

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

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

FINANCIAL INVESTMENT BOARD

Tuesday, 30 November 2021

Minutes of the meeting of the Financial Investment Board held at Guildhall, EC2 on
Tuesday, 30 November 2021 at 11.00 am

Present

Members:

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

Officers:

Joseph Anstee	- Town Clerk's Department
Caroline Al-Beyerty	- Chamberlain's Department
Kate Limna	- Chamberlain's Department
James Graham	- Chamberlain's Department
Lucy Tusa	- Mercer

1. APOLOGIES

Apologies for absence were received from Alderman Robert Howard, Tim Levene, Deputy Robert Merrett and Deputy Henry Pollard.

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

Deputy Clare James and Deputy Andrien Meyers declared personal interests in respect of Item 14 by virtue of their professional roles elsewhere, and advised that they would abstain from voting on this item.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED - That the public minutes and non-public summary of the meeting held on 14 September 2021 be agreed as a correct record.

4. OUTSTANDING ACTIONS

There were no public outstanding actions.

5. **TREASURY MANAGEMENT UPDATE AS AT 31 OCTOBER 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 October 2021. The Chamberlain introduced the report and drew Members' attention to the key points. The Board noted that capital financing requirements were likely to change as the City of London Corporation moved through the Medium-Term Financial Plan.

The Chamberlain advised that the key metric used for measuring interest rate risk on bond funds was duration, with a 1% increase in interest rates generally approximated as equalling a 3% decrease in value. However, as the Corporation treats these investments as longer-term holdings, it should expect such losses to be offset by improved yields over its investment horizon of around three years. In response to a question from a Member, the Chamberlain advised that there were two tranches of Crossrail funding outstanding for City's Cash, which were still currently invested and would be paid on completion.

A Member queried whether the recent increase in inflation had impacted officers' views in respect of Treasury Management Strategy. The Chamberlain responded that officers intended to review all conditions and circumstances under the next Treasury Management Strategy for 2022/23 to assess whether any measures were required to mitigate the impact of inflation on the value of short-term investment balances.

RESOLVED – That the report be noted.

6. **MID-YEAR TREASURY MANAGEMENT REVIEW 2021/22**

The Board received a report of the Chamberlain presenting the Mid-Year Treasury Management review for 2021/22, noting that this was a requirement under the CIPFA Code of Practice on Treasury Management. The Chamberlain introduced the report and outlined the key points for Members. The Board noted that officers were not recommending any changes to the Treasury Management Strategy for the second half of the year.

RESOLVED – That the report be noted.

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

The Board considered a report of the Chamberlain reviewing the key Risk Register for the Financial Investment Board. The Chamberlain introduced the report and outlined amendments and continuities on the Risk Register since the previous review.

The Deputy Chairman commented that consideration should be given to amending the Risk Register to separate out the three funds, as the fundamental risks affecting each fund were different, although there were some common risks. The Deputy Chairman also suggested adding a longer-term risk relating to sustainability of strategy, which would separate environmental and governance issues. A Member then commented that the risk in respect of targeted returns should also cover asset allocation. The Chamberlain advised that officers would take Members' feedback away, and would bring

amendments around asset allocation to the February meeting of the Board and also consider how to introduce longer-term changes following the Court of Common Council elections in March 2022.

RESOLVED – That the Financial Investment Board:

- a) 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
- b) Confirm that there are no further risks relating to the services overseen by the Financial Investment Board.

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

There were no questions.

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

There was no other business.

10. **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
11 - 16	3
17 - 18	-

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

RESOLVED - That the non-public minutes of the meeting held on 14 September 2021 be agreed as a correct record.

12. **NON-PUBLIC OUTSTANDING ACTIONS**

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

13. **INVESTMENT PERFORMANCE MONITORING REPORTS**

a) **Quarterly Monitoring Report Q3 2021**

The Board received a report of Mercer.

b) **Performance Monitoring to 30 September 2021: Pension Fund**

The Board received a report of the Chamberlain.

c) **Performance Monitoring to 30 September 2021: City's Cash**

The Board received a report of the Chamberlain.

d) **Performance Monitoring to 30 September 2021: Bridge House Estates**

The Board received a report of the Chamberlain.

14. **LCIV MAC FUND**
The Board considered a report of the Chamberlain.
15. **CMA ORDER 2019 - PART 7 COMPLIANCE STATEMENT: INVESTMENT CONSULTANT STRATEGIC OBJECTIVES (LGPS ONLY): REQUEST FOR DELEGATED AUTHORITY**
The Board considered a report of the Chamberlain.
16. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2021**
The Board considered a report of the Chamberlain.
17. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There was one non-public question.
18. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was one item of other business.

The meeting ended at 12.13 pm

Chairman

Contact Officer: Joseph Anstee
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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.					

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Committee: Financial Investment Board	Dated: 9 February 2022
Subject: Treasury Management Update as at 31 December 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 December 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. A monthly investment review report produced by the Corporation's treasury management consultants, Link Asset Services, is included at Appendix 2.

Interest rates have continued to rise modestly over the final quarter of 2021 as the Bank of England's Monetary Policy Committee raised its policy rate from 0.10% to 0.25% at its December meeting. This has allowed the Corporation to obtain higher yields through its 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. They also continue to generate strong income returns.

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 December 2021.

Current Position

2. The treasury management investment portfolio had a market value of £1,302.2m as at 31 December 2021, which represents an increase of £83.0m versus balance reported previously as at 31 October 2021 (£1,219.2m). This increase reflects a net inflow into the portfolio from the Corporation's day-to-day operations.

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 December 2021 compared to the position previously reported to the Board is displayed in table 1.

Table 1: Asset allocation as at 31 December 2021

	31-Oct-2021		31-Dec-2021	
	£m	£m	£m	%
Fixed Term Deposit	435.0	37%	435.0	34%
Notice accounts	310.0	25%	290.0	22%
Short Dated Bond Funds	160.9	13%	160.8	12%
Ultra Short Dated Bond Funds	137.5	11%	137.6	11%
Liquidity Fund	175.8	14%	278.8	21%
Total	1,219.2	100%	1,302.2	100%

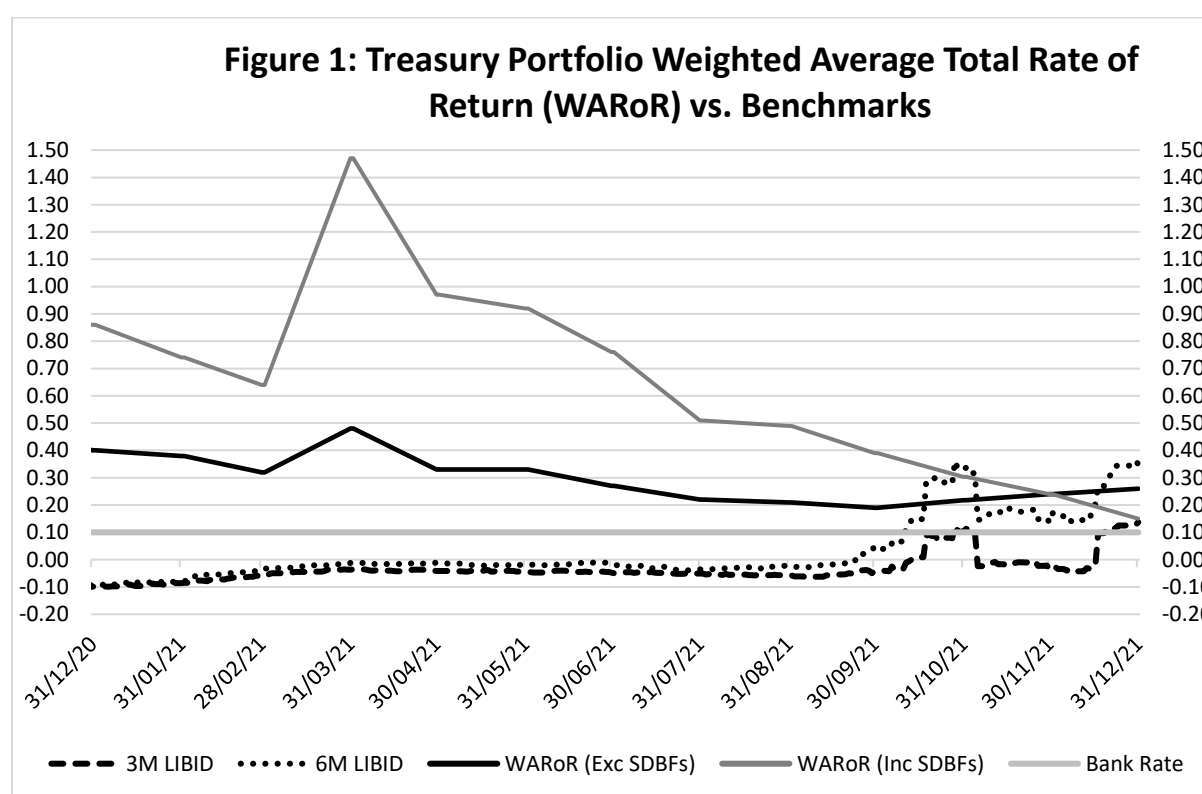
5. As at 31 December 2021, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks, building societies and local authorities via fixed term deposits (34%) and notice accounts (22%). The allocation to fixed term deposits is unchanged over the three months since October although the Corporation has been able to take advantage of higher rates available in the sterling money markets from reinvesting the proceeds of maturing deposits (see figure 1 below and paragraph 9). Lower yielding liquidity funds, make up around 21% 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 (12%) 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 December 2021 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

Performance

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. Having been relatively stable for most of 2021 sterling money market rates (represented by 3- and 6-month LIBID above) began rising in September.¹ The upward trajectory was temporarily reversed in November when the Bank of England surprised markets by maintaining its policy rate at 0.10% but interest rates began climbing again in December, when the Bank of England increased its policy rate to 0.25%. Notwithstanding these increases, 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

¹ LIBID is in the process of being phased out. From 1 January 2022, the portfolio will be benchmarked against the Sterling Overnight Index Average (SONIA) reference rates.

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). Over the last quarter this trend has been partially reversed in line with the general increase in money market rates. If monetary policy is gradually tightened further over the course of 2022 then officers expect this rate of return to continue to steadily increase from current levels.

11. 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. Total returns on these investments have reduced over recent months, which partially reflects the rotation to a rising interest rate environment. Notwithstanding this the income component of the bond fund investments remains relatively consistent. The income distribution yield on the L&G and Royal London bond funds is currently 1.7% and 2.1% per annum, respectively.
12. 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 December 2021

Fund	1 Month Return (30/11/2021 to 31/12/2021)	3 Month Return (30/09/2021 to 31/12/2021)	12 Month Return (31/12/2020 to 31/12/2021)
Federated Hermes Sterling Cash Plus Fund	0.00%	-0.02%	-0.01%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.00%	0.01%	0.13%
Payden Sterling Reserve Fund	-0.05%	-0.14%	-0.07%
L&G Short Dated Sterling Corporate Bond Index Fund	-0.37%	-0.73%	-0.95%
Royal London Investment Grade Short Dated Credit Fund	0.30%	-0.56%	-0.29%

13. 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.
14. The increase in interest rates has had a negative effect on these funds' total returns recently, although this has occurred after a sustained period of price appreciation prior to 2021.
15. 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 +2.62% and +2.73%,

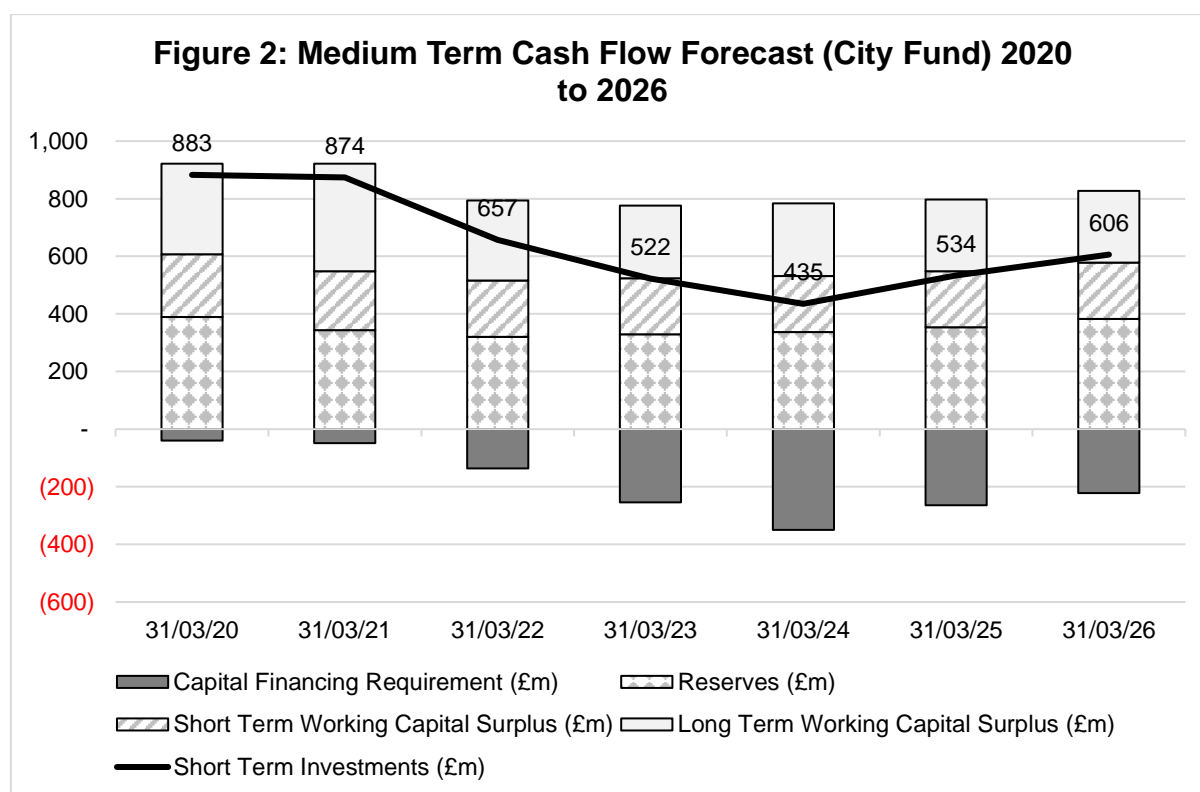
respectively. The Corporation deliberately allocates a small portion of the overall portfolio to these investments - an amount that can sustainably be invested over the medium term.

16. 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, and which requires unrealised capital gains and losses to be charged to an unusable reserve on the balance sheet rather than reported via income and expenditure.

Cash Flow Forecast

17. 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%).

18. Cash investments (represented by the black line in figure 2) are expected to be below historic levels over the next few years before recovering towards the end of the forecast period.



19. The forecast is unchanged from the projection reported to the Board at its last meeting on 30 November. The forecast will be revised following the conclusion of the medium term financial planning process.

20. 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 increase in the capital financing requirement will be pushed out further into the future.
- 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.

21. 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

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

23. Interest rates have continued to rise modestly over the final quarter of 2021 as the Bank of England’s Monetary Policy Committee raised its policy rate from 0.10% to 0.25% at its December meeting. This has allowed the Corporation to obtain higher yields through its 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. They also continue to generate strong income returns.

Appendices

Appendix 1: Counterparty Exposure as at 31 December 2021

Appendix 2: Monthly Investment Analysis Review December 2021

Background Papers

James Graham

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APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 DECEMBER 2021

	Counterparty Limit £M	Total Invested as at 31-Dec-21 £M	Average Rate of Return %
<u>TOTAL INVESTED</u>		<u>1,302.2</u>	<u>0.15%</u>
<u>FIXED TERM DEPOSITS</u>			
- <u>UK BANKS</u>			
Barclays	100.0	50.0	0.33%
Goldman Sachs	100.0	20.0	0.76%
NatWest	100.0	100.0	0.23%
		<u>170.0</u>	
<u>BUILDING SOCIETIES</u>			
Leeds	20.0	20.0	0.14%
Nationwide	120.0	20.0	0.07%
Yorkshire	20.0	20.0	0.55%
		<u>60.0</u>	
<u>FOREIGN BANKS</u>			
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%
Toronto Dominion	100.0	40.0	0.63%
		<u>195.0</u>	
<u>LOCAL AUTHORITIES</u>			
Stockport City Council	25.0	10.0	0.10%
		<u>10.0</u>	
<u>LIQUIDITY FUNDS</u>			
Aberdeen SLI Liquidity Fund	100.0	10.0	0.05%
CCLA - Public Sector Deposit Fund	100.0	90.2	0.13%
Deutsche Global Liquidity Fund	100.0	87.7	0.08%
Federated Prime Liquidity Fund	100.0	10.8	0.04%
Invesco Sterling Liquidity Fund	100.0	80.1	0.04%
		<u>278.8</u>	
<u>ULTRA SHORT DATED BOND FUNDS</u>			
Payden Sterling Reserve Fund	100.0	61.8	-0.07%
Aberdeen SLI Short Duration Fund	100.0	50.4	0.13%
Federated Sterling Cash Plus Fund	100.0	25.4	-0.01%
		<u>137.6</u>	
<u>SHORT DATED BOND FUNDS</u>			
L&G	100.0	80.3	-0.95%
Royal London	100.0	80.5	-0.29%
		<u>160.8</u>	

	Counter- party Limit	Total Invested as at 31-Dec-21	Average Rate of Return
	£M	£M	%
<u>NOTICE ACCOUNTS</u>			
Australia and New Zealand 185 Days Account	100.0	90.0	0.43%
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	20.0	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%
		<u>290.0</u>	
<u>TOTAL</u>		<u>1,302.2</u>	



City Of London Corporation

Monthly Investment Analysis Review

December 2021

Monthly Economic Summary

General Economy

The Flash (i.e. provisional) Manufacturing PMI dropped to a 3-month low of 57.6 in December from 58.1 in November, in line with market expectations. Notably, the Backlogs of Work sub-index dipped from 58.6 to 51.8 in December, signalling the slowest accumulation of work-in-hand since February. This was helped by reduced pressure on supply chains, as signalled by the least marked lengthening of delivery times for 12 months. The Flash Services PMI, meanwhile, fell more sharply to 53.2 in December, down from 58.5 in November, missing market forecasts of 57.0. This reading signalled a sharp slowdown in service sector growth to the lowest since February, amid reports of a negative impact on customer demand from Omicron variant restrictions. However, underlying components did suggest that rising employment levels contributed to the slowest accumulation of unfinished work since March while input cost inflation also eased from record highs. As a result of the fall in the Services PMI, the Flash Composite PMI (which incorporates both sectors), dropped to 53.2 in December from 57.6 in November, missing market expectations of 56.4. Meanwhile, the Construction PMI (which is released one month behind), rose to 55.5 in November from 54.6 in October and well ahead of market expectations of 54.2. This indicated a robust and accelerated expansion of overall construction activity.

By expanding just 0.1% m/m compared to expectations of a 0.4% gain, GDP data for October suggested that economic growth was anaemic even before the contemplation of COVID restrictions being re-introduced following the discovery of the Omicron variant in November. For the second month in a row, this weakness was evident in the breakdown of GDP, which confirmed that the biggest contributor to growth came from a 2.6% rise in health output as more people visited their GP. Absent this growth, GDP would have contracted during the month. Foreign trade continued to drag on GDP, although the UK's trade deficit did narrow to £2.03 billion in October from September's eight-month high of GBP 2.78 billion. Both exporters and importers reported challenges emanating from Brexit, the pandemic, rising energy prices and supply chain disruption.

Whilst employment rose by 149,000 in the three months to October, more notable was that employment fell by 143,000 during the single month of October, following the end of the furlough scheme. Combined with the rise of 78,000 in unemployment reported in the month (which left the unemployment rate at 4.2%), this suggests that there was some modest deterioration in the labour market following the scheme's end. However, the fall of 49,800 in the number of people claiming unemployment benefits and the 275,000 rise in the PAYE measure of company payrolls both observed in November suggests that the deterioration was short-lived. The rise in the number of vacancies from 1.18m to a record 1.22m in the three months to November also suggests that the supply of labour struggled to keep pace with demand during the period. Against this backdrop, average weekly earnings including bonuses increased 4.9% y/y in the three months to October, the smallest gain in seven months but above market forecasts of 4.6%.

UK inflation, as measured by the Consumer Price Index (CPI), jumped to 5.1% y/y in November from 4.2% in October, reaching its highest rate since December 2011. In the process, the CPI exceeded both market forecasts of 4.7% and the Bank of England's own forecast of 4.5% made in November's Monetary Policy Report. Much of the increase was driven by rising energy prices, supply chain disruptions and a low base effect from last year. Whilst some of these effects were due to one-off factors, rises in food prices, housing rents and second hand car prices provided evidence of more persistent price pressures. Ultimately, these signs of "greater persistence in domestic costs and price pressures" saw the Monetary Policy Committee (MPC) raise Bank Rate to 0.25% during the month. Although this move was in keeping with Link's forecasts, it surprised the market, which had expected the MPC to delay raising rates until it had greater clarity surrounding the impact

of the Omicron variant on economic growth.

Retail sales, meanwhile, rose 1.4% m/m in November, exceeding forecasts of a 0.8% increase, with retailers noting strong trading related to “Black Friday”. Reports also suggested that worries about shortages and shipping delays prompted some households to do their Christmas shopping early. Despite this rise, sales remained 0.7% lower than a year ago. The outsized monthly gain in retail sales was followed by a 1 point fall in the GFK Consumer Confidence index to -15 in December amid concerns over the Omicron variant.

Although public sector net borrowing fell to £17.4bn in November from £18.8bn in October, it exceeded both market forecasts of £16.0bn and the OBR’s forecast of £14.2bn. This was reportedly due to an increase in debt interest costs and additional spending on both the NHS Test and Trace and vaccine booster programmes. As a result, borrowing reached £136.0 billion in the financial year-to-November, £115.8 billion less than in the same period in 2020 but almost triple three times its level during April-November 2019.

The US economy added just 210,000 jobs in November, well below market expectations of 550,000, as employers continued to report difficulties in hiring and retaining workers amid a strong economic recovery. This saw the unemployment rate fall to 4.2% in November, the lowest since February 2020 and well below market expectations of 4.5%. The US economy grew by an annualised 2.3% during Q3 2021, slightly higher than 2.1% according to the second estimate and following a 6.7% expansion in Q2. Against this backdrop, price growth (as measured by the Federal Reserve’s preferred Personal Consumption Expenditure deflator) reached 5.7%y/y in November, well ahead of the Fed’s 2% target. These "inflation developments and the further improvement in the labour market" saw the Federal Reserve signal during its December meeting (via its “dot plot” chart outlining individual member expectations) that it may raise rates (from 0-0.25% currently) three times in 2022 and 2023 and twice more in 2024. The Fed also announced plans to accelerate its QE taper, which would see the current programme of bond purchases end in March.

The Eurozone economy advanced 2.2% q/q in Q3 2021, following upwardly revised 2.2% growth in Q2, matching initial estimates. The final reading of inflation for November confirmed an increase to 4.9% y/y from 4.1% in October, representing the highest reading since July 1991 but in line with preliminary estimates. While energy prices (which rose 27.5% y/y) accounted for much of the rise, core inflation (which excludes energy, food, alcohol and tobacco) also reached a record high 2.6% rate. Although the ECB reiterated at its December meeting that the rise in inflation was expected to be transitory, the central bank announced that it would reduce the pace of its asset purchases under its €1.85 trillion PEPP next quarter and wind down the scheme in March 2022, citing progress on economic recovery and towards its medium-term inflation target.

Housing

The Halifax reported that house prices rose 1% m/m in November whilst Nationwide reported the same monthly gain in December. This left prices 8.2% and 10.4% higher than a year ago respectively.

Currency

The MPC’s unexpected Bank Rate rise helped Sterling gain ground against both the US Dollar and the Euro this month.

December	Start	End	High	Low
GBP/USD	\$1.3318	\$1.3497	\$1.3497	\$1.3208
GBP/EUR	€1.1750	€1.1911	€1.1911	€1.1663

Forecast

Link Group left its forecast for Bank Rate unchanged in December.

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

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	10,000,000	0.05%		MMF	AAAm	
	MMF CCLA	90,200,000	0.13%		MMF	AAAm	
	MMF Deutsche	87,700,000	0.08%		MMF	AAAm	
	MMF Federated Investors (UK)	10,800,000	0.04%		MMF	AAAm	
	MMF Invesco	80,100,000	0.04%		MMF	AAAm	
	USDBF Aberdeen Standard Investments	50,414,632	0.13%		USDBF	AAAf	
	USDBF Federated Sterling Cash Plus Fund	25,351,099	-0.01%		USDBF	AAAf	
	USDBF Payden Sterling Reserve Fund	61,793,866	-0.07%		USDBF	AAAf	
	Nationwide Building Society	20,000,000	0.07%	07/07/2021	07/01/2022	A	0.001%
	Australia and New Zealand Banking Group Ltd	10,000,000	0.12%	08/02/2021	08/02/2022	A+	0.005%
	Stockport Metropolitan Borough Council	10,000,000	0.10%	26/02/2021	25/02/2022	AA-	0.004%
	National Westminster Bank Plc (RFB)	20,000,000	0.19%	26/03/2021	28/03/2022	A	0.011%
	Lloyds Bank Plc (RFB)	20,000,000	0.05%		Call95	A+	0.012%
	Santander UK PLC	20,000,000	0.40%		Call95	A	0.012%
	Landesbank Hessen-Thüringen Girozentrale (Helaba)	25,000,000	0.18%	13/08/2021	13/05/2022	A-	0.017%
	Barclays Bank Plc (NRFB)	25,000,000	0.28%	27/09/2021	27/06/2022	A	0.023%
	Santander UK PLC	30,000,000	0.58%		Call180	A	0.023%
	Leeds Building Society	20,000,000	0.14%	02/07/2021	01/07/2022	A-	0.024%
	Australia and New Zealand Banking Group Ltd	90,000,000	0.43%		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%
	National Westminster Bank Plc (RFB)	20,000,000	0.17%	05/07/2021	05/07/2022	A	0.024%
	Landesbank Hessen-Thüringen Girozentrale (Helaba)	25,000,000	0.16%	16/07/2021	18/07/2022	A-	0.026%
	Landesbank Hessen-Thüringen Girozentrale (Helaba)	25,000,000	0.16%	16/07/2021	18/07/2022	A-	0.026%
	National Westminster Bank Plc (RFB)	25,000,000	0.18%	09/08/2021	09/08/2022	A	0.029%
	National Westminster Bank Plc (RFB)	25,000,000	0.19%	13/08/2021	12/08/2022	A	0.029%
	Toronto Dominion Bank	20,000,000	0.56%	22/12/2021	22/09/2022	AA-	0.017%
	Goldman Sachs International Bank	20,000,000	0.33%		Call270	A+	0.035%
	Barclays Bank Plc (NRFB)	25,000,000	0.37%	01/10/2021	03/10/2022	A	0.036%
	National Australia Bank Ltd	25,000,000	0.49%	13/10/2021	13/10/2022	A+	0.037%
	National Australia Bank Ltd	20,000,000	0.50%	15/10/2021	17/10/2022	A+	0.037%
	Landesbank Hessen-Thüringen Girozentrale (Helaba)	25,000,000	0.69%	26/10/2021	26/10/2022	A-	0.039%
	National Westminster Bank Plc (RFB)	10,000,000	0.67%	26/10/2021	26/10/2022	A	0.039%
	Yorkshire Building Society	20,000,000	0.55%	17/11/2021	17/11/2022	A-	0.041%
	Goldman Sachs International Bank	20,000,000	0.76%	08/12/2021	08/12/2022	A+	0.044%
	Toronto Dominion Bank	20,000,000	0.69%	22/12/2021	22/12/2022	AA-	0.023%
	Santander UK PLC	50,000,000	0.68%		Call365	A	0.047%

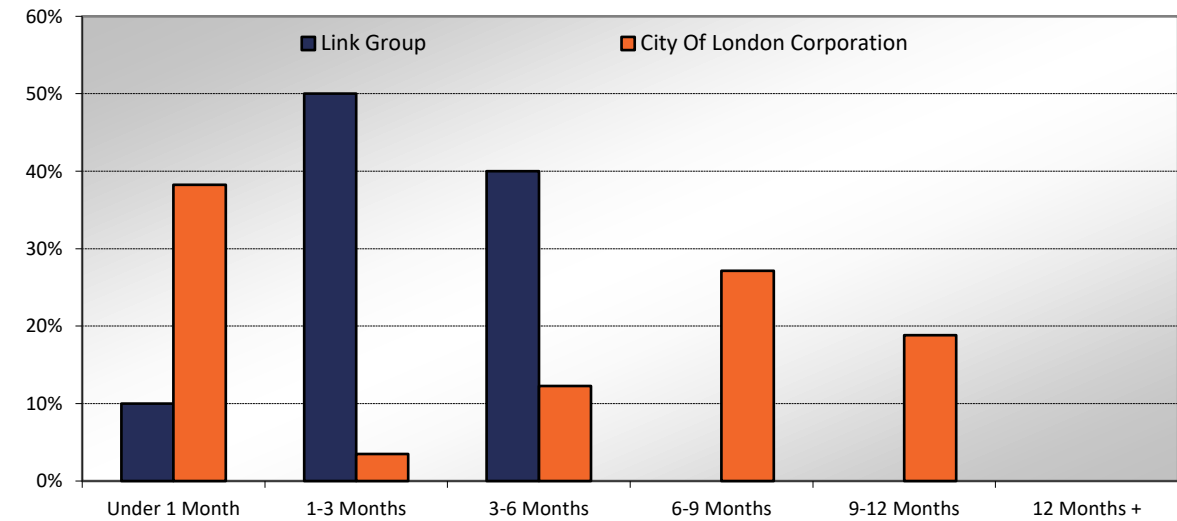
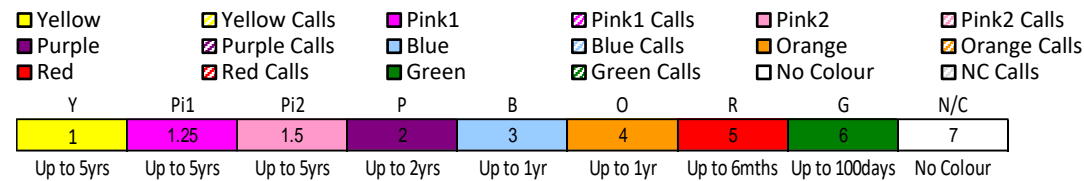
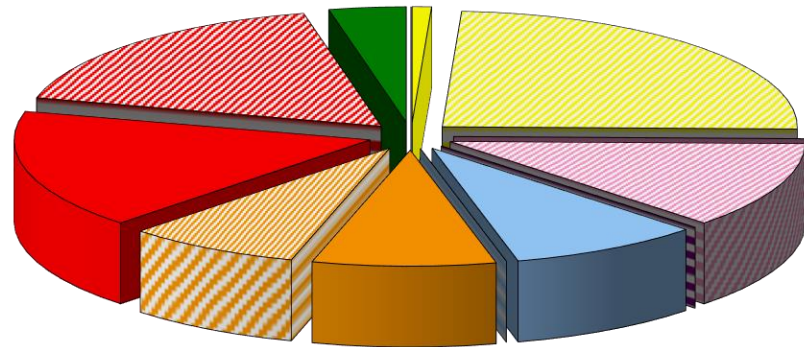
City Of London Corporation

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	80,281,832	-0.95%				
ROYAL LONDON	80,516,964	-0.29%				
Total Investments	£1,302,158,393	0.15%				
Total Investments - excluding Funds	£1,141,359,597	0.26%				0.027%
Total Investments - Funds Only	£160,798,795	-0.62%				

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.

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = 3.26

WARoR = Weighted Average Rate of Return

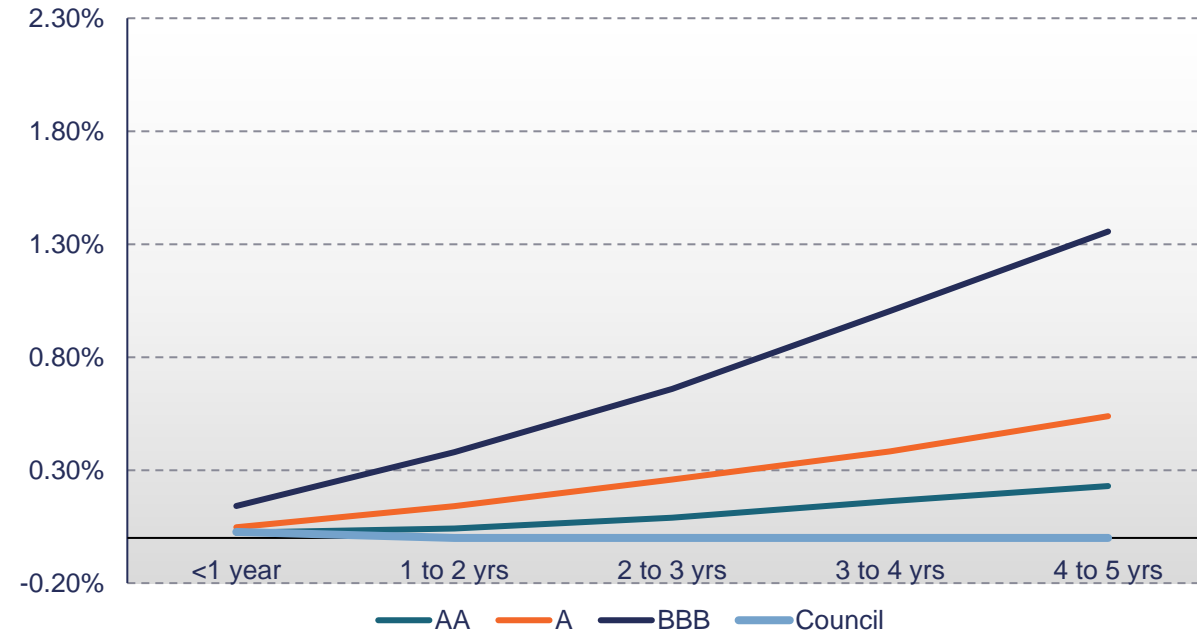
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	25.30%	£288,800,000	96.54%	£278,800,000	24.43%	0.08%	2	13	56	364
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	12.05%	£137,559,597	100.00%	£137,559,597	12.05%	0.01%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	8.76%	£100,000,000	0.00%	£0	0.00%	0.23%	196	365	196	365
Orange	16.21%	£185,000,000	48.65%	£90,000,000	7.89%	0.47%	229	268	271	346
Red	34.17%	£390,000,000	51.28%	£200,000,000	17.52%	0.37%	213	270	206	323
Green	3.50%	£40,000,000	0.00%	£0	0.00%	0.35%	252	365	252	365
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£1,141,359,597	61.89%	£706,359,597	61.89%	0.26%	136	184	218	342

City Of London Corporation

Investment Risk and Rating Exposure

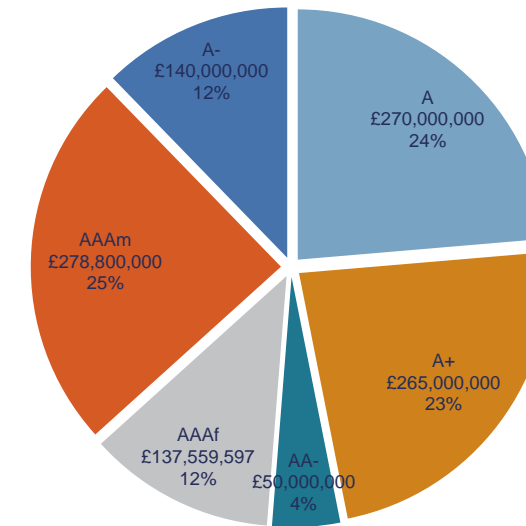
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	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%

Rating Exposure



Historic Risk of Default

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

Chart Relative Risk

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

Rating Exposures

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

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

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
03/12/2021	1862	Norddeutsche Landesbank Girozentrale	Germany	The Support Rating was withdrawn. At the same time all other ratings were affirmed.
22/12/2021	1867	Bank of Montreal	Canada	The Support Rating was withdrawn. At the same time all other ratings were affirmed.

City Of London Corporation

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
10/12/2021	1863	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was upgraded to 'Ba3' from 'B2'.

City Of London Corporation

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
15/12/2021	1864	Standard Chartered Bank	United Kingdom	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time all other ratings were affirmed.
16/12/2021	1865	Danske A/S	Denmark	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Outlook on the Long Term Rating was changed to Negative from Stable and all other ratings were affirmed.
16/12/2021	1866	Credit Industriel et Commercial	France	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Short Term Rating was affirmed.

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Committee: Financial Investment Board	Dated: 9 February 2022
Subject: Amendment to 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 introduces a proposed amendment from officers to the Risk Register for the Financial Investment Board to adequately capture risks surrounding asset allocation decision making following feedback from Members at the last meeting on 30 November 2021.

Recommendations

Members are asked to:

- Agree the proposed amendments to risk CHB FIB 02 (Targeted returns) as presented at the Appendix.

Main Report

Background

1. The Financial Investment Board (the 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 Risk Register is presented to the Board semi-annually while officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. The current Risk Register was agreed by the Board on 30 November 2021.
2. At that meeting the Board discussed the suitability of Risk CHB FIB 02 (Targeted returns), which focuses on individual and collective fund manager performance but fails to address underperformance as a result of strategic and tactical asset allocation decisions. It was agreed that officers would bring back an amendment to this risk to the February meeting.

Amendment to the Risk Register

3. Risk CHB FIB 02 is set out in the Appendix. Officers have reviewed the wording around the Risk Description and added a new Risk Action which describes how the Board currently manages this risk. The proposed amendments are underlined. At this stage it is not proposed to amend the risk score.

Future Changes to the Risk Register

4. The Board also commented that consideration should be given to amending the Risk Register to separate out the three funds and discussed whether the Risk Register should include a longer-term risk relating to sustainability of strategy, which would separate environmental and governance issues. Officers are considering this feedback and will bring back proposed changes in the new municipal year.

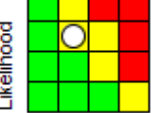
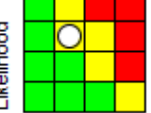

Appendix: Excerpt from Risk Register

James Graham

Group Accountant – Pensions & Treasury Management
Chamberlains Department

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E: james.graham@cityoflondon.gov.uk

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	<p>Cause: <u>Fund managers The three Funds fail to achieve the targeted investment returns because</u></p> <ul style="list-style-type: none"> the Board appoints unsuitable fund managers, individual fund managers underperform against the benchmarks agreed by the Board, aggregate fund manager performance fails to achieve the Board's long-term targets <p><u>The asset allocation strategy is not consistent with the Funds' return targets</u></p> <p><u>Current asset allocation deviates from target asset allocation without adequate oversight</u></p> <p>Event: Failure to be seen to manage the funds responsibly. Effect: Supervisory intervention over management of the Funds.</p>	Likelihood  Impact	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.	Likelihood  Impact	6	31-Mar-2022	
08-Mar-2018 Caroline Al-Beyerty				19 Nov 2021				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	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

APPENDIX

	movement of key officers; and reviews on the incorporation of ESG considerations in implementing their investment strategies. Fund managers are invited to meet with Officers and Members to account for their performance as and when the Board deem this necessary/as required.				
CHB FIB 02b	<u>Asset allocation strategy is set with reference to the Funds' investment objective and funding requirements on a periodic basis. Current asset allocation is monitored against strategy at each Board meeting.</u>	<u>As at 31 December 2021, the three Funds are each overweight towards equities versus their asset allocation strategies. The Pension Fund's current asset allocation is within control ranges established in the Fund's Investment Strategy Statement. For BHE, any material portfolio rebalancing or revision of the asset allocation strategy has been on hold pending the conclusion of the Bridge House Estates governance review. The Bridge House Estates Board is expected to review the Charity's overall investment arrangements in 2022. This would serve as an appropriate opportunity to review the asset allocation strategy against the Charity's updated financial outlook. For City's Cash, any decisions around the rebalancing of the portfolio will be dependent on the decisions taken by the Corporation around its funding strategy for the capital programme as part of the MTFP process and work on the Fund's overall asset allocation.</u>	<u>James Graham; Kate Limna</u>	<u>31-Jan-2022</u>	<u>31-Mar-2022</u>

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