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Investment Committee

Date: **FRIDAY, 7 JULY 2023**

Time: 2.00 pm

Venue: **COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL**

Members:
Deputy Andrien Meyers (Chair)
Shahnan Bakth (Deputy Chairman)
Nicholas Bensted-Smith
Claudine Blamey
David Brooks Wilson
Deputy Henry Colthurst
Deputy Simon Duckworth
Alderman Alison Gowman
Deputy Madush Gupta
Deputy Christopher Hayward
Deputy Randall Anderson
Deputy Henry Pollard
Paul Singh
Deputy James Thomson
Deputy Philip Woodhouse

Enquiries: **Ben Dunleavy**
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Ian Thomas CBE
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**

   To approve the public minutes and non-public summary of the meeting held on 19 May 2023.

   For Decision
   (Pages 7 - 12)

4. **INVESTMENT BOARDS MINUTES**

   For Information

   a) Financial Investment Board Minutes (Pages 13 - 18)

      To receive the public minutes and non-public summary of the Financial Investment Board meeting on 17 February 2023.

   b) Property Investment Board minutes (Pages 19 - 22)

      To receive the public minutes and non-public summary of the Property Investment Board meeting on 15 February 2023.

5. **FORWARD PLAN**

   For Information
   (Pages 23 - 26)

6. **TREASURY MANAGEMENT UPDATE**

   Report of the Chamberlain.

   For Information
   (Pages 27 - 44)

7. **CITY SURVEYOR'S BUSINESS PLAN 2022-27 QUARTER 4 2022/23 UPDATE**

   Report of the City Surveyor.

   For Information
   (Pages 45 - 62)

8. **THE CITY SURVEYOR'S CORPORATE AND DEPARTMENTAL RISK REGISTER - JUNE 2023 UPDATE**

Report of the City Surveyor.

For Information
(Pages 63 - 78)

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

10. **ANY OTHER BUSINESS THAT THE CHAIR 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 or relate to functions of the Court of Common Council which are not subject to the provisions of Part VA and Schedule 12A of the Local Government Act 1972.

For Decision

Part 2 - Non-Public Agenda

12. **NON-PUBLIC MINUTES**

To approve the non-public minutes of the meeting held on 19 May 2023.

For Decision
(Pages 79 - 82)

13. **INVESTMENT BOARD MINUTES**

For Information

a) Non-Public Financial Investment Board Minutes (Pages 83 - 86)

To receive the non-public minutes of the Financial Investment Board meeting on 17 February 2023.

b) Non-Public Property Investment Board Minutes (Pages 87 - 92)

To receive the non-public minutes of the Property Investment Board meeting on 15 February 2023.

14. **CHIEF INVESTMENT ROLE: UPDATE AND DRAFT SIPS**

Report of the Chamberlain.

For Decision
(Pages 93 - 112)

15. **INVESTMENT PERFORMANCE MONITORING REPORTS**

a) Quarterly Monitoring Report Q1 2023 (Pages 113 - 134)

Report of Mercer.

b) Performance Monitoring to 30 April 2023: City's Cash (Pages 135 - 150)

Report of the Chamberlain.

16. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING TO 31 MARCH 2023**

Report of the Chamberlain.

For Information
(Pages 151 - 156)

17. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2023**

Report of the Chamberlain.

For Decision
(Pages 157 - 162)

ALL ESTATES

18. **CITY FUND, CITY'S ESTATE AND STRATEGIC PROPERTY ESTATE - ANNUAL VALUATION**

Report of the City Surveyor.

For Information
(Pages 163 - 166)

19. **CITY SURVEYOR REVENUE OUTTURN 2022-23**

Joint Report of the Chamberlain and the City Surveyor.

For Information
(Pages 167 - 176)

20. **PERFORMANCE MONITORING OF PROPERTY INVESTMENT PORTFOLIOS TO 31ST MARCH 2023**

Report of the City Surveyor.

For Information
(Pages 177 - 180)

CITY’S ESTATE AND CITY FUND ESTATE

21. **CITY FUND & CITY'S ESTATE: INVESTMENT PROPERTY MONITORING REPORT**

Report of the City Surveyor.

For Information
(Pages 181 - 184)

22. **DELEGATION REQUEST**

Report of the City Surveyor.

For Decision
(Pages 185 - 186)

CITY’S ESTATE

23. **CITY'S ESTATE: REFURBISHMENT/EXTENSION OF: THE COURTYARD - 1 ALFRED PLACE, W1**

Report of the City Surveyor.

For Decision
(Pages 187 - 192)

CITY FUND

24. **REFURBISHMENT OR REPLACEMENT OF THE FORESHORE RIVER DEFENCES FRONTING RIVERBANK HOUSE, UPPER THAMES STREET, LONDON EC4**

Joint Report of the Executive Director, Environment and the City Surveyor.

For Decision
(Pages 193 - 210)

25. **BASTION HOUSE/MUSEUM OF LONDON SITE - 140-150 LONDON WALL - STRIP OUT WORKS AND APPLICATION FOR NEW CERTIFICATE OF IMMUNITY FROM LISTING**

Report of the City Surveyor.

For Decision
(Pages 211 - 216)

26. **REPORT OF ACTION TAKEN**

Report of the Town Clerk.

For Information
(Pages 217 - 220)

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

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

Part 3 - Confidential Agenda

29. **CONFIDENTIAL PROPERTY INVESTMENT BOARD MINUTES**

To receive the confidential minutes of the Property Investment Board meeting on 15 February 2023.

For Information

INVESTMENT COMMITTEE
Friday, 19 May 2023

Minutes of the meeting of the Investment Committee held at Committee Rooms, Guildhall on Friday, 19 May 2023 at 11.00 am

Present

Members:
Deputy Randall Anderson
Shahnan Bakth
David Brooks Wilson
Deputy Simon Duckworth
Deputy Madush Gupta
Deputy Christopher Hayward
Deputy Andrien Meyers
Paul Singh
Deputy James Thomson

Officers:

Caroline Al-Beyerty	-	The Chamberlain
Paul Wilkinson	-	The City Surveyor
Alan Bennetts	-	Comptroller and City Solicitor's Department
Andrew Cross	-	City Surveyor's Department
Ben Dunleavy	-	Town Clerk’s Department
John Galvin	-	City Surveyor's Department
John James	-	Chamberlain’s Department
Tom Leathart	-	City Surveyor's Department
Kate Limna	-	Chamberlain’s Department
Robert Murphy	-	City Surveyor's Department
Ola Obadara	-	City Surveyor's Department
Sarah Port	-	Chamberlain's Department
Harinder Thandi	-	City Surveyor's Department

Also in attendance

Lucy Tusa	-	Mercer
Maria Cobbe	-	Stanhope Capital
Ivo Coulson	-	Stanhope Capital
James Lawlor	-	Stanhope Capital

1. **APOLOGIES**
Deputy Randall Anderson, as the second most senior Common Councillor, moved that Deputy Simon Duckworth, as the most senior Common Councillor, should take the Chair until the election of the Chair at item 4. The motion was seconded and approved by the Committee and Deputy Duckworth accordingly took the Chair.

Apologies for absence were received from Claudine Blamey, Deputy Henry Colthurst, Alderman Alison Gowman, Deputy Henry Pollard, Nicholas Bensted Smith, and Deputy James Thomson.

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

There were none.

3. **ORDER OF THE COURT**

Members received the Order of the Court of Common Council dated 27 April 2023 appointing the Committee and setting its Terms of Reference.

4. **ELECTION OF A CHAIR**

The Committee proceeded to elect a Chair in accordance with Standing Order No. 29. Deputy Andrien Meyers, as the only Member expressing their willingness to serve, was duly elected as Chair for the ensuing year and took the Chair.

RESOLVED – That Deputy Andrien Meyers be elected Chair of the Investment Committee for the ensuing year.

Deputy Simon Duckworth moved a Vote of Thanks to Tom Sleigh, the past Chairman of the Investment Committee.

RESOLVED UNANIMOUSLY - THAT the Members of the Investment Committee wish to place on record their sincere thanks to

TOM SLEIGH

for his accomplished stewardship as Chair of the Investment Committee, and for the committed and innovative service he has demonstrated to the work of the Investment Committee and Investment Boards.

Tom has been a knowledgeable and dedicated Chair of the Committee and the Property Investment Board, both of which he served for eight years, chairing the Board and the Investment Committee through the unprecedented challenges of the Covid-19 pandemic. His imagination and enthusiasm as Chair, together with his understanding and strategic oversight have driven the Committee with a clear and expansive focus, despite the huge pressures and impact on the investment sector.

Tom was able to combine his leadership with the expertise of the members of the Board and the skills of the City Surveyor’s Department to maximum benefit in reacting to the emergency of COVID-19, spearheading a programme of invaluable support to protect City businesses and the local economy.

By representing the Committee on the Policy and Resources Committee, Tom has provided a valuable link between the organisation’s investments and wider strategic objectives, most evident in Tom’s commitment to green and sustainable investment, in alignment with the Climate Action Strategy. As Chair, he promoted a dynamic and collaborative approach that has helped to introduce new ideas and ways of working, also leading a working group to shape the future of the City's investment arrangements following an organisational restructure and wider governance review. Tom's Property Investment Board also utilised Co-opted Members to valuable effect, broadening the diversity of its knowledge and experience with a view to progressing our strategic aims.

During his tenure, the value and income of the City's funds have seen substantial increases. The Board has overseen a period of strong performance across its funds, with growth in the value of the Property Investment portfolio by over £1.2billion and Annual Income by £40million. This represents a top quartile performance as measured by MSCI, outperforming the London benchmark, and the Universe. In difficult circumstances, Tom's stewardship has progressed important schemes and transformational projects, and increased our exposure to the light industrial sector, which has helped to ensure the continuing strength of the City's property investment portfolio.

The Committee wishes to thank him for his leadership and expertise in investment matters. The ability that Tom has demonstrated as Chair is much appreciated by all Members of the Committee, and for this reason it is their hope that the City can continue to depend on his skills and experience, as he turns his attention to future challenges.

5. **ELECTION OF A DEPUTY CHAIR**

The Committee proceeded to elect a Deputy Chairman in accordance with Standing Order No. 30. Shahnan Bakth, as the only Member expressing their willingness to serve, was duly elected as Deputy Chair for the ensuing year.

RESOLVED, that – Shahnan Bakth be elected as the Deputy Chair for the ensuing year.

6. **PROTOCOL FOR THE CO-OPTION OF MEMBERS**

Members received a report of the Town Clerk relative to the protocol for the co-option of Members.

The Chair informed Members that four of the two co-opted positions had been filled by members co-opted by the former Property Investment Board, with two further vacancies to be filled. Members agreed that it would be beneficial to seek to fill these vacancies with candidates with a background in financial investment, in order to provide a balanced set of skills and experience.

RESOLVED, that – Members authorise the Town Clerk, in consultation with the Chair and Deputy Chair, to draft and approve a protocol for the co-option of Members.

7. **WORK OF THE INVESTMENT COMMITTEE**

Members received a presentation from the Chamberlain providing an overview of the assets managed by the Investment Committee and introducing officers from the Investment Property Group and the Corporate Treasurer's team.

During discussion on the presentation, the following points were noted:

- The net position of assets in City Fund and City's Cash, including treasury cash was £4.8bn
- Investments for Bridge House Estates and Pensions fell under the remit of the Bridge House Estates Board and the Pensions Committee respectively
- The financial portfolio had a net zero target of 2040 with interim targets of 2025 and 2030. Officers undertook to return to the Committee with reports on climate action risks for the City's property and investment portfolios (noting that these are two separate workstreams within the City's Climate Action Strategy) in due course, and create a reporting routine on this subject
- Officers would look to arrange a range of training for Members, including CIPFA's Treasury Management training and an introduction to financial investments. Training that Members had received from their roles outside of the City could be taken into account for MIFID2, but not for CIPFA's Treasury Management training.
- Officers would also look to conduct a short survey to gather information on Members' financial investment beliefs. The Chair suggested that the survey should explore overarching investment beliefs for the entire investment portfolio, or that a parallel survey on property investment beliefs should also be carried out. Members noted that there were significant differences between financial investments and property investment. A Member suggested that it would be helpful to coordinate any investment belief surveys with the Audit and Risk Management Committee's risk appetite survey. The Chamberlain said that one of the key principles within the Statement of Investment Principles would be the Investment Committee's risk appetite, which might vary between the two portfolios. She felt the Audit and Risk Management Committee would likely scrutinise any risk appetite set by the Investment Committee.

RESOLVED, that – the presentation be received and its contents noted.

8. **INTRODUCTION TO CIO TEAM**

The Chamberlain introduced officers from Stanhope Capital, explaining that the City Corporation had outsourced its Chief Investment Officer function to this firm.

9. **FORWARD PLAN**

Members received a joint report of the Chamberlain and the City Surveyor providing a forward plan.

Members noted that the forward plan provided an oversight of the routine work that the Committee would see over the average calendar year.

In response to a question about the balance between the level of reporting from the property investment side compared to the financial investment side, the Chairman said that nature of the decisions required for property investment meant that it would report more frequently, with financial investments tending to report on a quarterly basis.

Members discussed how to strategically manage the relationship with the investment fund managers to create the right balance of reporting. The Chamberlain said that it was critical for the Committee to have the chance to scrutinise the managers. The Chair proposed that a framework could be established in which meetings with managers could be set up by reference to a set of performance criteria. A Member suggested that these meetings could be taken outside the formal Committee structure by creating smaller panels of Members. Officers confirmed that a practice similar to this had previously been followed: the Chair, Deputy Chair and available Members would meet managers for an hour, with a summary report being provided at the next formal Committee meeting.

Following a request from a Member, with particular reference to reports on property investment decisions, the Chair confirmed he had consulted the City Surveyor and that plans were under way to reduce the size of reports.

The Chamberlain emphasised that the forward plan was intended as a start, and that it could be restructured to help emphasise where the strategic decisions for the Committee would fall.

RESOLVED, that – the report be received and its contents noted.

10. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
A Member asked if officers could avoid where possible sending supplementary agendas at short notice before meetings. The Chair replied that he would be work with officers to avoid this happening. The Chamberlain added that, as the first meeting of the Committee, the organisation of the agenda had been somewhat exceptional.

11. **ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT**
There was no urgent business.

12. **EXCLUSION OF THE PUBLIC**

13. **WORK OF THE INVESTMENT COMMITTEE**
Members received the non-public section of the presentation from the Chamberlain providing an overview of the work of the Committee.

14. **LEADENHALL MARKET**
Members received a report of the City Surveyor relative to Leadenhall Market.

15. **6 BROAD ST PL & 15-17 ELDON ST**

Members received a report of the City Surveyor relative to an updated funding plan for the refurbishment project at 6 Broad Street Place and 15-17 Eldon Street.

16. **CITY'S ESTATE: 3-9 BREWERY ROAD, LONDON, N7**
Members received a report of the City Surveyor relative to the purchase of a leasehold interest.

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

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

18.1 **Request for delegations**

The Board agreed to delegate authority to the Town Clerk, in consultation with the Chair and Deputy Chairman, to consider one item.

The meeting ended at 12.58 pm

Chairman

Contact Officer: Ben Dunleavy
ben.dunleavy@**cityoflondon.gov.uk**

FINANCIAL INVESTMENT BOARD

Friday, 17 February 2023

Minutes of the meeting of the Financial Investment Board held at Guildhall, EC2 on Friday, 17 February 2023 at 11.00 am

Present

Members:
Deputy Andrien Meyers (Chairman)
Deputy Simon Duckworth (Chief Commoner)
Deputy Philip Woodhouse

Officers:

Caroline Al-Beyerty	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Sarah Port	-	Chamberlain's Department
Dylan McKay	-	Town Clerk's Department
John Cater	-	Town Clerk's Department
Lucy Tusa	-	Mercer

1. **APOLOGIES**
   Apologies were received from Shahnan Bakth, Nicholas Bensted-Smith, Henry Colthurst, Christopher Hayward, and Henry Pollard.

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 21st October 2022 be agreed as a correct record.

4. **TREASURY MANAGEMENT UPDATE AS AT 31 DECEMBER 2022**
   The Board received a Report of the Chamberlain summarising the City of London Corporation’s treasury management portfolio (investments) as at 31 December 2022.

   In response to a query, officers confirmed that, as per page 21 of the pack, the average interest rate across the current funds equated to 1.52%. The impact of rising interest rates over the recent period had delivered a positive impact on City Fund’s position for 2022/23.

   Given the likelihood that interest rates would continue on an upward curve through the first half of 2023 and that rates would remain high relative to recent history for some time to come, a Member queried whether plans should be put in place to either break or re-negotiate the current fixed term deposits.

Officers advised that a break or re-negotiation of current terms would not be desirable given the negative impact this would have on the City Corporation's reputation; it should be noted, however, that as these terms matured and eventually expired, opportunities would arise for new terms to be agreed which would generate higher returns.

In response to a query, officers advised Members that whilst the value of the Corporation's short-dated bond fund investments has declined 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. Members asked whether, given these investments were entered into during an era of historically low interest rates, careful consideration should be given about planning an exit strategy which balanced the potential losses of exiting alongside the critical requirement to meet the City's Cash Flow needs over the coming period, the City shouldn't be afraid to take a loss in the short-term if it meant greater gains further down the line.

The Chair asked for a short update to come back to the Board outlining potential exit scenarios and a provisional timeline for when the City would be drawing down on cash. It was important for Members to understand when the best timing was for any significant shift in approach.

Given the quite rapid changes in the market and the fact that the Board would not meet again until later in the spring, Members also proposed that the Town Clerk, in consultation with the Chair and the Deputy Chair of the Board, be provided delegated authority to authorise an exit from the short-dated bond fund investments if this was recommended by officers as being advantageous for the City.

In response to a query, officers would go away to consider whether ranges could be established across the different classes; the current position for the City (and other local authorities) was that the counter party would set the limits.

RESOLVED – that the Board noted the Report.

5. **MID-YEAR TREASURY REVIEW 2022/23**

The Board received a Report of the Chamberlain concerning the Mid-Year Treasury Management Review for 2022/23.

RESOLVED – that the Board noted the Report.

6. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24**

The Board considered a Report of the Chamberlain concerning the Treasury Management Strategy Statement and Annual Investment Strategy 2023/24.

The Board requested that officers amend the title of this paper i.e., the Treasury Management Strategy Statement and Annual Investment Strategy to make it clearer that the matters under consideration concerned City Fund and not City's Cash (i.e., this did not apply to the equities and securities portfolio for City's Cash). Whilst this would be picked up orally at the next meeting of the Finance Committee, the Chair asked the Chamberlain to revise the wording in the document in advance of it going to the Court of Common Council in March to clarify this point.

The Chamberlain and the Chairman of the Finance Committee informed the Board that a dashboard outlining the City's cashflow position would be submitted to the Finance Committee monthly.

To assist with efficiency, the Chair asked officers to consider options for increasing the scope of officer delegations concerning matters that were currently under the Board's remit; this was in line with a similar proposal from the Chairman of the Finance Committee who had tasked the Chamberlain to bring a paper to the May meeting of the Finance Committee with proposals to extend officer delegation thresholds materially.

In response to a query, the Chamberlain confirmed that annual due diligence was currently being undertaken with regards to the banks which the City had funds with. It was also confirmed that all of these Banks were UK domiciled.

The Chamberlain confirmed that this paper had to be approved by financial year end and any major changes "in-year" would require the fresh approval of the relevant Committees and Court. Any minor changes were delegated to the Chamberlain to resolve.

Separately, the Chamberlain confirmed that a Report would be submitted to the May meeting of the Finance Committee (as usual) asking for Members to agree the interest rate for internal borrowing at the City Corporation (i.e., between City funds and institutions).

RESOLVED – that the Board reviewed and approved the Treasury Management Strategy Statement and Annual Investment Strategy for 2023/24 and endorsed it to the Finance Committee and the Court of Common Council as part of the City Fund 2023/24 Budget Report for formal adoption.

7. **RISK REGISTER UPDATE**

The Board considered a Report of the Chamberlain concerning the key Risk Register for the Financial Investment Board.

Members asked that the title of CHB FIB 05 was amended from "Insufficient Cash" to "Cashflow management".

The Board asked that more consideration was given to making the direction of travel of the risks clearer and more user friendly to the lay person, the Chamberlain would raise this with her fellow Chief Officers as part of the wider workstream to improve the processes and information around Risks.

RESOLVED – that the Board:

- Reviewed the existing risks and actions present on the Financial Investment Board's Risk Register, and confirmed that appropriate control measures are in place; and

- Confirmed 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 was one question.

Given the low attendance of Members at today's meeting, a Member asked whether the Board was constituted correctly. The Chair shared the Member's concerns and informed fellow Members that, as part of the wider governance review, consideration was being given to the future of the Board. The Chair would pick up on this matter further in non-public session.

The Board recorded their formal concern in public that action needed to be taken on these matters given the critical nature of the Board's function and remit.

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.

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

RESOLVED - That the non-public minutes of the meeting held on 21st October 2022 be agreed as a correct record.

12. **PERFORMANCE MONITORING CITY'S CASH**

12.1 **Quarterly Monitoring report to 31 December 2022**

The Board received the Quarterly Monitoring Report to 31st December 2022; this Report was produced by Mercer.

12.2 **Performance Monitoring to 31 December 2022**

The Board received a Report of the Chamberlain concerning performance monitoring to 31 December 2022.

13. **HAMPSTEAD HEATH TRUST AND CHARITIES POOL: PERFORMANCE MONITORING TO 31 DECEMBER 2022**

The Board received a Report of the Chamberlain concerning the Hampstead Heath Trust and Charities Pool.

14. **SIR WILLIAM COXEN TRUST FUND: PERFORMANCE MONITORING TO 31 DECEMBER 2022**
The Board received a Report of the Chamberlain concerning the value and investment performance of the Sir William Coxen Trust Fund to 31 December 2022.

15. **PRI 2021 ASSESSMENT UPDATE**
The Board received a Report of the Chamberlain concerning the Principles for Responsible Investment (PRI) Assessment report for 2021.

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

17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was no other business.

The meeting ended at 12.30 pm

Chairman

Contact Officer: John Cater
john.cater@cityoflondon.gov.uk

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PROPERTY INVESTMENT BOARD

Wednesday, 15 February 2023

Minutes of the meeting of the Property Investment Board held at Guildhall, EC2 on Wednesday, 15 February 2023 at 9.30 am

Present

Members:
Deputy Andrien Meyers (Chair)
Deputy Randall Anderson (Deputy Chairman)
Deputy Madush Gupta
Paul Singh
Claudine Blamey

Officers:

Paul Wilkinson	-	City Surveyor
John James	-	Chamberlain's Department
Alan Bennetts	-	Comptroller & City Solicitor's Department
Nicholas Gill	-	City Surveyor's Department
Andrew Cross	-	City Surveyor's Department
Tom Leathart	-	City Surveyor's Department
Neil Robbie	-	City Surveyor's Department
John Galvin	-	Town Clerk's Department
Harinder Thandi	-	Chamberlain's Department
John Cater	-	Town Clerk's Department
Paul Murtagh	-	Community & Children's Services Department

1. **APOLOGIES FOR ABSENCE**
   Apologies for absence were received from Christopher Hayward, James Thomson, and David Brooks Wilson.

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

3. **MINUTES**
   RESOLVED – That the public minutes and non-public summary of the meeting held on 25th November 2022 be approved.

   The Chair welcomed Robert Murphy to the Board, Robert would be succeeding Nick Gill as Investment Property Group Director in March.

4. **PUBLIC OUTSTANDING ACTIONS**
   Lighting Strategy

Officers informed Members that they had spoken to the City Property Association (CPA), who would shortly be putting a formal response to the City's Planning Department on the subject of the Lighting Strategy. The IPG would follow the lead of the CPA.

Carbon contribution from employees working from home

In response to a query around the efficacy of effectively measuring this area, officers informed the Board that options were being examined, including individual carbon footprint toolkits and literature searches. They would return to the Board at a future meeting with further details.

5. **BLAKE TOWER - UPDATE REPORT**

The Board received a Report of the Interim Executive Director of Community and Children's Services concerning Blake Tower.

The Assistant Director Housing & Barbican informed Members that Redrow Homes Ltd were currently directly negotiating with the residents of Blake Tower in order and it was expected that this would take several weeks; the remediation period would likely take around six months, at which point, once all parties are contented that all health and safety concerns were rectified, the City would then be in a position to enter into handover with Redrow. It was anticipated that this handover process would be relatively straightforward.

The Chair asked that the Board were kept abreast of these matters over the coming months.

RESOLVED – that the Board noted the Report.

6. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There was one question.

In response to a Member querying the timeline for the submission of a planning application for London Wall West, the City Surveyor confirmed that was currently pencilled in for April.

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

There was no other business.

8. **EXCLUSION OF THE PUBLIC**

RESOLVED – That under Section 100A(4) 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 1 of Schedule 12A of the Local Government Act.

9. **NON PUBLIC MINUTES**
RESOLVED – That the non-public minutes of the meeting held on 25th November 2022 be approved.

10. **NON-PUBLIC OUTSTANDING ACTIONS**
RESOLVED – That the non-public outstanding actions were received and noted.

11. **CITY FUND AND CITY'S ESTATE : INVESTMENT PROPERTY MONITORING REPORT**
The Board received a Report of the City Surveyor concerning Investment Property monitoring.

12. **CITY'S ESTATE AND CITY FUND RENTAL ESTIMATES MONITORING REPORT - DECEMBER 2022 QUARTER**
The Board received a Report of the City Surveyor concerning the City's Estate and City Fund Rental Estimates as at 31st December 2022.

13. **CITY FUND & CITY'S ESTATE REVENUE WORKS PROGRAMME – 22/23 PROGRESS REPORT**
The Board received a Report of the City Surveyor concerning the City Fund and City's Estate revenue works programme.

14. **CITY FUND AND CITY'S ESTATE: FLEET STREET QUARTER BUSINESS IMPROVEMENT DISTRICT – FREEHOLDERS GROUP**
The Board considered a Report of the City Surveyor concerning the Fleet Street Quarter Business Improvement District (BID).

15. **REPORT OF ACTION TAKEN SINCE THE LAST MEETING OF THE BOARD**
The Board received a Report of the Town Clerk concerning approvals taken by the Town Clerk, in consultation with the Chair and Deputy Chairman of the Board since the last meeting of the Board in November 2022.

16. **STRATEGIC PROPERTY ESTATE (CITY FUND & CITY'S ESTATE) - ANNUAL UPDATE & STRATEGY FOR 2023/2024 TO 2027/28**
The Board considered a Report of the City Surveyor concerning the Strategic Property Estate (City Fund and City's Estate).

17. **CITY FUND PROPERTY INVESTMENT PORTFOLIO - ANNUAL UPDATE & STRATEGY REPORT**
The Board considered a Report of the City Surveyor concerning the City Fund Property Investment Portfolio.

18. **CITY'S ESTATE: 2023 INVESTMENT PROPERTY PORTFOLIO STRATEGY**
The Board considered a Report of the City Surveyor concerning the City's Estate Investment Property Portfolio.

19. **CITY'S ESTATE : 4-10 NORTH ROAD N7 – DISPOSAL OF 150-YEAR LEASE**

The Board considered a Report of the City Surveyor concerning the disposal of a long leasehold interest in 4 – 10 North Road.

20. **CITY'S ESTATE: DISPOSAL OF FREEHOLD OF (1) 42 CONDUIT STREET AND (2) 45 CONDUIT STREET W1**
The Board considered a Report of the City Surveyor concerning the disposal of the freehold of (1) 42 Conduit Street and (2) 45 Conduit Street, W1.

21. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
There were no questions.

22. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREES SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There were three items of non-public business.

23. **FUNDING AND APPROVAL OF MARKET FORCE SUPPLEMENTS TO INVESTMENT PROPERTY GROUP, CITY SURVEYOR'S DEPARTMENT**
Members considered a Report of the City Surveyor concerning the funding and approval of Market Force Supplements to the Investment Property Group (IPG) - City Surveyor's Department –

The meeting ended at 11.00 am

Chairman

Contact Officer: John Cater
John.Cater@cityoflondon.gov.uk

	July 23	Sept 23	Dec 23	Feb 24	Mar 24	May
Overall Investment Portfolio	Chief Investment Role Update					
Investment Property	Bastion House - Strip out and COIL City's Estate Gateway Closure Delegation Sheet Investment Property Monitoring Report City Fund, City's Estate and Strategic Property Estate - Annual Valuation City Surveyor Business Plan Update Quarter 4 City Surveyor Revenue Outturn 2022-23 City Surveyor Risk Register MSCI Performance Monitoring	Business Plan – 1st Quarter Progress. City Surveyor's Department Risk Register – 1st Quarter Progress. Delegation Sheet	Draft New Business Plan 2022 – 2025 Annual Estimates Draft New Business Plan 2022 – 2025 Business Plan – 2nd Quarter Progress City Surveyor's Department Risk Register – 2nd Quarter Progress Delegation Sheet	City Fund and City's Estate : Investment Property Monitoring reports City Fund Annual Update City's Estate Annual Update Strategic Property Estate Annual Update Delegation Sheet	Business Plan 3rd Quarter Progress City Surveyor's Department Risk Register – 3rd Quarter Progress. Delegation Sheet	City Fund and City's Estate : Investment Property Monitoring report Annual Valuation Delegation sheet

	Replacement or Refurbishment of Foreshore River					
Financial Investments	Performance Monitoring report for City’s Cash Investments City's Cash Quarterly Investment Hampstead Heath Trust & Charities Pool Investment Performance Monitoring Sir William Coxen Trust Fund Performance Monitoring to 31 March 2023	Performance Monitoring report for City’s Cash Investments Quarterly Investment report from Mercer CAS Update (Financial Investments) Financial Investments Risk Register	PRI (Principles of Responsible Investment) – Assessment Update City's Cash Quarterly Investment Sir William Coxen Trust Fund Performance to 30 September Performance Monitoring report for City’s Cash Investments Quarterly Investment report from Mercer Hampstead Heath Trust & Charities Pool Investment Performance Monitoring to 30 September	Risk Register Performance Monitoring report for City’s Cash Investments	Performance Monitoring report for City’s Cash Investments Quarterly Investment report from Mercer (Investment Consultant)	Performance Monitoring report for City’s Cash Investments Quarterly Investment report from Mercer

Treasury Management	Treasury Management Update as at 31 May 2023	Treasury Management Update Annual Treasury End of Year/Outturn Report	Mid-Year Treasury Review Treasury Management Update	Annual Treasury Management Statement	Treasury Management Update	Treasury Management Update
Governance		Annual Review of the Committee's Terms of Reference	Annual Review of the Committee's Terms of Reference	Annual Review of the Committee's Terms of Reference	Annual Review of the Committee's Terms of Reference	

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Committee: Investment Committee	Dated: 07 July 2023
Subject: Treasury Management Update as at 31 May 2023	**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 Discussion / Information**
Report author: Adam Buckley – Chamberlain's Department	

Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 May 2023. The report includes an update on the current asset allocation of the short-term investment portfolio and its performance. A monthly investment review report produced by the Corporation's treasury management consultants, Link Asset Services, is included at Appendix 2.

The treasury position was last reviewed by the Financial Investment Board at their final meeting on 17 February 2023, when they received a report outlining the treasury position as at 31 December 2022.

Whilst the annual consumer price inflation (CPI) fell to 8.7% in the year to April 2023, from 10.5% as at December 2022, this 8.7% level was maintained in the year to May 2023, which exceeded both the market and Bank of England's expectations of 8.2% and 8.4% respectively, and hence the outlook on interest rates has evolved. The Bank of England's Monetary Policy Committee (MPC) has continued to raise the base rate incrementally from 3.50%, which was applicable at 31 December 2022, to 5.00% in June 2023, the thirteenth successive rise since December 2021 and markets are currently moving to a new assumed 'terminal' base rate of near 6.00% by the end of the year.

This increase in rates has allowed the Corporation to obtain higher yields through its allocation to fixed term deposits, and officers expect interest income to increase further over the course of 2023/24 if the expected continued tightening in monetary policy materialises.

Recommendation

Members are asked to note the report.

Main Report

Background

1. The Investment Committee (which was established 19 May 2023 following the dissolution of the Financial Investment Board) will receive 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 May 2023.

Current Position

2. The treasury management investment portfolio had a market value of £1,112.1m as at 31 May 2023, which is a decrease of £140.4m from the balance reported previously as at 31 December 2022 (£1,252.5m). This decrease relates to the seasonal profile of the organisation's annual cash cycle, whereby the final quarter of the year usually experiences a net outflow of cash, and included:-

   - a scheduled payment to return business rates relief funds (£67.5m);
   - an additional payment relating to 2021/22 National Non-Domestic Rates (NNDR-3) outturn adjustments (£31.5m);
   - City's Cash capital expenditure on the purchase of the long lease of Europa Trade Park (£26.5m);
   - expenditure on Major projects of circa £39.3m;and
   - the normal cycle of reductions in the amount of NNDR income in the last quarter of the financial year (1 January – 31 March 2023).

<u>Asset Allocation</u>

3. In accordance with the current Treasury Management Strategy Statement 2023/24, 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 May and 31 March 2023 compared to the position previously reported to the Financial Investment Board is displayed in table 1.

Table 1: Asset allocation as at 31 May 2023

	31-Dec-2022		**31-Mar-2023**		**31-May-2023**	
	£m	**£m**	**%**		**£m**	**%**
Fixed Term Deposit	655.0	52%	535.0	51%	505.0	46%
Notice accounts	160.0	13%	140.0	13%	115.0	10%
Short Dated Bond Funds	148.4	12%	151.0	15%	149.5	13%
Ultra Short Dated Bond Funds	137.9	11%	139.2	13%	140.0	13%
Liquidity Fund	151.2	12%	82.5	8%	202.6	18%
Total	**1,252.5**	**100%**	**1,047.7**	**100%**	**1,112.1**	**100%**

5. As at 31 May 2023, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks via fixed term deposits (46%)

as the Corporation has taken advantage of higher rates available in the sterling money markets (see figure 1 below and paragraph 10). However, the allocation to fixed term deposits has decreased by £150m over the five months since December 2022, in line with the decrease in the cash balance as noted in paragraph 2. Therefore, a greater proportion is now held in the Liquidity funds (18%) to support this expenditure, as these balances are very liquid and can be accessed on the day. The increase in Liquidity funds of £51.4m has primarily been funded by the redemption of £45m from a notice account, which currently represent 10% of the allocation.

6. The ultra-short dated bond funds account for 13% of the treasury portfolio. 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 at least three years (the average duration In light of this volatility, the Treasury Management Strategy Statement (TMSS) was amended with effect from 1 April 2022, so that only City Fund would maintain exposure to the short dated bond funds.

7. Further analysis on the composition of the portfolio as at 31 May 2023 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

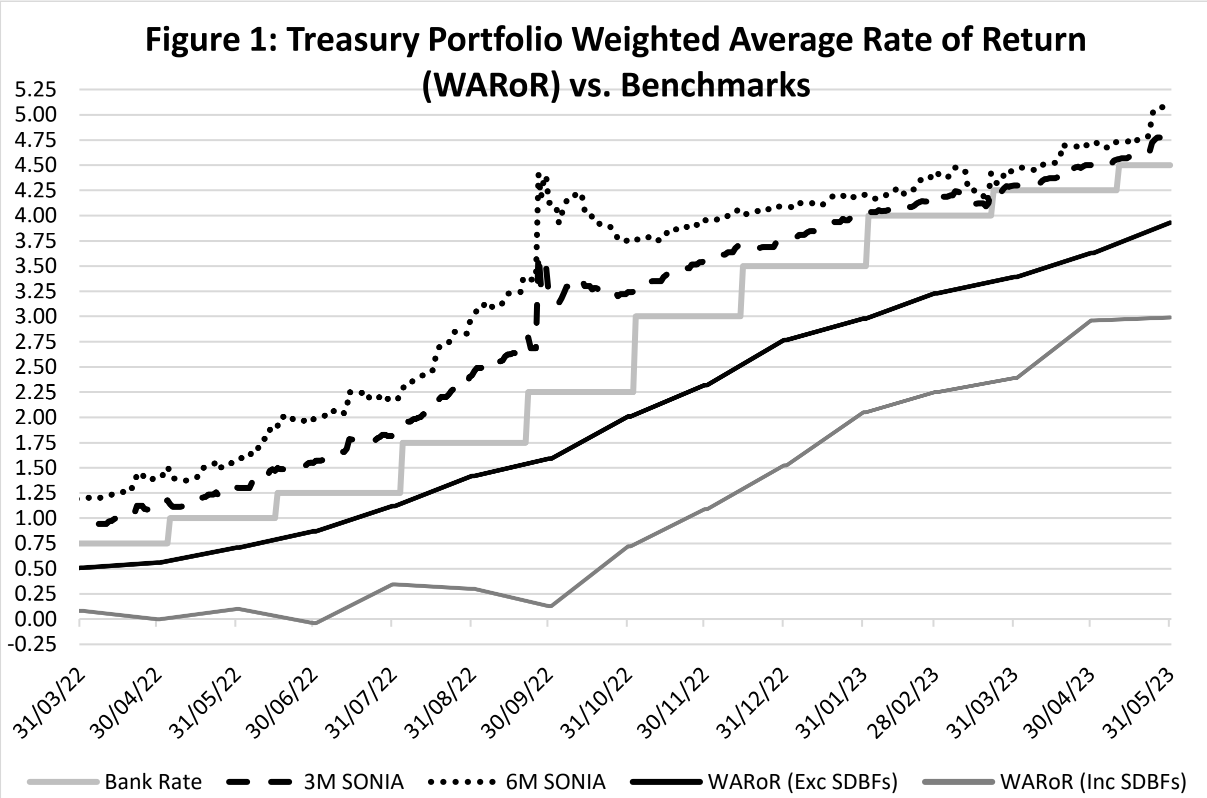
<u>Performance</u>

8. Since December 2023, the Bank of England has continued to increase its Bank Rate, from 3.50% to 4.5% in May 2023, and more recently 5.0% at June 2023 in successive moves at each of the last thirteen meetings of the MPC. The accompanying policy statement from the June meeting maintained the comment that *"...if there were to be evidence of more persistent [inflation] pressures, then further tightening of monetary policy would be required*". In light of the level of inflation, and following the hawkish comments from incoming MPC member Megan Greene on 5 July 2023, who will be replacing ultra-dove Silvana Tenreyro, the markets are giving direction for future movements towards the new assumed 'terminal' base rate of near 6.00% by the end of the year. As the Bank Rate is the primary determinant of short-term interest rates in the UK, these changes have impacted the treasury investment portfolio, broadly in two ways:

   a. The capital value of the Corporation's bond fund investments have marginally declined in the reporting period (i.e. when interest rates increase, bond prices decrease and vice versa), however, yields have increased which has improved their total returns as at the reporting date. That is, income, rather than capital gains, have made up a greater part of the total return generated by these funds during this period. These investments are exposed to interest rate risk which the Corporation manages by ensuring the allocations are consistent with a longer term investment horizon for this minority portion of the portfolio.

b. For the majority of the portfolio – which is invested in short term money market instruments – the increase in interest rates means that the Corporation can benefit from materially enhanced returns on new deposits and via the shorter term liquidity funds.

9. These effects can be seen in 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.



10. Sterling money market rates have risen steadily in line with bank rates increases throughout most of 2022 and the start of 2023, although they rose sharply at the end of September 2022 due to the Governments proposed fiscal stimulus plans, as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the perceived risk of the proposed significant tax cuts to the UK economy, as shown in figure 1 via the readings for 3-month and 6-month Sterling Overnight Index Average Rate (SONIA). Rates subsequently eased as the government reversed its plans and the Bank of England moved to quell market unease, though rates are still trending upwards in line with expected bank rate increases as the MPC moves to try and ease inflation.

11. Returns on the Corporation's short term investment portfolio excluding short dated funds have trended upwards in 2023, as lower yielding deposits have matured and been replaced with new investments at a higher yield, as the Corporation capitalised on the increase in interest rates. 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). If monetary policy is continually tightened over the course of 2023/24 then officers expect this rate of return to increase from current levels.

12. 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) in order to capitalise on the more favourable market rates.

13. 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 May 2023 in calculating the portfolio returns displayed in figure 1 (i.e. the WARoR (Weighted Average Rate of Return)). Returns on these investments have increased since the end of 2022, however, over the last year as a whole, returns on the short-dated bonds (L&G and Royal London) have reduced, which largely reflects the continued rising interest rate environment.

14. 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 May 2023

Fund	1 Month Return (30/04/2023 to 31/05/2023)	5 Month Return (31/12/2022 to 31/05/2023)	12 Month Return (31/05/2022 to 31/05/2023)
Federated Hermes Sterling Cash Plus Fund	0.34%	1.59%	2.71%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.35%	1.73%	3.01%
Payden Sterling Reserve Fund	0.00%	1.46%	1.25%
L&G Short Dated Sterling Corporate Bond Index Fund	-1.10%	0.96%	-3.09%
Royal London Investment Grade Short Dated Credit Fund	-1.84%	0.41%	-3.03%

15. 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.

16. The increase in interest rates has had a negative effect on these short dated bond funds total returns over the last 12 months, although this has occurred after a sustained period of price appreciation prior to 2021/22.

17. 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. 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.

18. Notwithstanding the decline in capital values, as interest rates rise the bond managers will be able to reinvest the maturing bonds at a higher yield, thus raising the level of income in the portfolio, that is, income, rather than capital gains, should make up a greater part of the total return generated by these funds. The income

(distribution) yield on the bond funds with Royal London and L&G are 3.80% and 3.20% respectively as at the end of April 2023.

19. 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 has been extended for a further 2 years until 31 March 2025, 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.

20. However, officers are reviewing the historic and anticipated future performance of these funds, with consideration as to whether dis-investment, and any possible realised capital loss, would be offset by more favourable returns from an alternative investment class.

21. Currently, interest generated from short-dated bond funds are automatically reinvested, either by accumulating more shares or by increasing the price of the shares already held. Officers are reviewing whether interest from these investments can instead be distributed, and therefore can be invested in instruments that are currently producing higher short-term returns, such as liquidity funds and fixed term deposits.

Cash Flow Forecast

22. The City Fund's medium-term cash flow forecast is currently being reviewed along with all the capital projects, including the major projects, to develop a detailed forecast and appropriate funding strategy. Stanhope Capital LLP has been appointed to provide a strategic investment advisory function working alongside the City's in-house Corporate Treasury and Investment Property teams, to provide expert advice on the investment strategy/allocation advice between property and financial investments; and advice on how to secure the best rates of return for the differing requirements for City Find and City's Cash. Once this has been finalised a cashflow forecast will be provided.

Conclusion

23. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 May 2023. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's current Treasury Management Strategy Statement 2023/24.

24. Since the Financial Investment Board last reviewed the treasury position as at 31 December 2022, whilst the annual consumer price inflation (CPI) fell to 8.7% in the year to April 2023, from 10.5% as at December 2022, this level of 8.7% was maintained in the year to May 2023, which exceeded both the market and Bank of England's expectations of 8.2% and 8.4% respectively, and hence the outlook on interest rates has evolved. The Bank of England's Monetary Policy Committee (MPC) has continued to raise the base rate incrementally from 3.50%, which was applicable at 31 December 2022, to 5.0% in June 2023 with a 7-2 majority, the thirteenth successive rise since December 2021.

25. In light of the current rate of inflation, and the hawkish comments from incoming MPC member Megan Greene, the markets are currently moving to a new assumed 'terminal' base rate of near 6.00% by the end of the year. This increase in rates has allowed the Corporation to obtain higher yields through its allocation

to fixed term deposits, and officers expect interest income to increase further over the course of 2023/24 if the expected continued tightening in monetary policy materialises.

26. The capital value of the Corporation's short-dated bond fund investments has marginally decreased in the reporting period as market rates have increased. These investments are appropriate for surplus cash balances that can be invested sustainably over the medium term given the expectation for higher returns over this time horizon, and they continue to generate strong income returns. Albeit, officers are currently reviewing historic and anticipated future performance of these funds, with consideration as to whether disinvestment at some stage, and any possible realised loss, could be offset by more favourable returns from an alternative investment class.

Appendices

Appendix 1: Counterparty Exposure as at 31 May 2023
Appendix 2: Monthly Investment Analysis Review May 2023

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APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 MAY 2023

	Counterparty Limit £M	Total Invested as at 31-May-23 £M	Average Rate of Return %
TOTAL INVESTED		**1,112.1**	**2.99%**
FIXED TERM DEPOSITS			
UK BANKS			
Barclays	100.0	85.0	4.74%
Goldman Sachs	100.0	35.0	4.00%
NatWest	100.0	50.0	2.80%
		170.0	
BUILDING SOCIETIES			
Leeds	20.0	20.0	2.09%
		20.0	
FOREIGN BANKS			
DBS Bank	100.0	65.0	4.23%
Helaba	100.0	50.0	2.79%
National Australia Bank	100.0	65.0	4.84%
Rabobank	100.0	35.0	3.62%
Toronto Dominion Bank	100.0	100.0	4.75%
		315.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	31.0	4.05%
CCLA - Public Sector Deposit Fund	100.0	50.8	4.12%
Deutsche Global Liquidity Fund	100.0	43.0	4.18%
Federated Prime Liquidity Fund	100.0	40.0	4.04%
Invesco Sterling Liquidity Fund	100.0	37.8	4.08%
		202.6	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	62.0	1.25%
Aberdeen SLI Short Duration Fund	100.0	52.0	3.01%
Federated Sterling Cash Plus Fund	100.0	26.0	2.71%
		140.0	
SHORT DATED BOND FUNDS			
L&G	100.0	74.9	-3.09%
Royal London	100.0	74.6	-3.03%
		149.5	
NOTICE ACCOUNTS			
Australia and New Zealand 185 Days Account*	100.0	90.0	4.43%
Santander 365 Days Account**	100.0	25.0	3.90%
		115.0	
TOTAL		1,112.1	

**Since the end of May, £45m has been returned (maturity date 05/06/23).*
***Notice has been given on this account, with the full £25m returning on 01/12/2023.*

City Of London Corporation

Client Designated MMF, USDBF & SDBF Rates

Monthly Investment Analysis Review

May 2023

Monthly Economic Summary

General Economy

The preliminary (i.e. Flash) UK Manufacturing PMI fell to 46.9 in May from 47.8 in April, and below market expectations of 48. The latest reading pointed to the steepest deterioration in activity in the sector for five months, as output declined for a third consecutive month due in part to subdued order books and customer destocking. The UK Services PMI also fell, to 55.1 in May from 55.9 in April and below the market consensus of 55.5. However, by remaining above 50, the survey indicated that service sector activity grew in May – with respondents also noting that they experienced the fastest rise in their cost burdens for three months. The UK Construction PMI (which is released one month behind) meanwhile, edged higher to 51.1 in April from 50.7 in March, marking a third consecutive increase in construction activity, and compared to forecasts of 51. Rising volumes of commercial work and civil engineering activity helped to offset the steepest decline in residential construction output since May 2020.

The UK economy's GDP shrank 0.3% m/m in March, following a flat reading in February and worse than market forecasts of no growth. Details of the report revealed that government spending, foreign trade and inventory destocking drove the contraction, whilst consumer spending (in real terms) was unchanged on the month. Considering the three months to March, GDP grew by 0.1%. Whilst foreign trade acted as a break on growth, the UK trade deficit actually shrank to £2.86 billion in March from a downwardly revised £3.35 billion in February. This was the smallest trade shortfall in four months, as imports slipped 1.8% m/m to a 15-month low of £69.8 billion while exports fell at a slower 1.2% rate to a nine-month low of £66.9 billion. Goods imports fell 2.8% due to a decline in purchases from non-EU countries.

UK employment rose by 182,000 in the three months to March, more than market forecasts of 160,000 growth and up from a 169,000 rise in the previous period. Although this marked the highest advance in ten months, employment in March as a single month fell by 444,000, reversing much of February's huge 504,000 gain. Vacancies also fell slightly to 1.083m from 1.114m in February. Ultimately, a decline in inactivity (which sees people look for work) caused the unemployment rate to rise by 0.1%, reaching 3.9% in the first quarter of 2023. This marked the highest level since the period between November 2021 and January 2022, and slightly higher than the consensus forecast of 3.8%. Alongside this marginal loosening of the labour market, average weekly earnings, including bonuses in the UK, rose 5.8% y/y in the three months to March, the same as in January and in line with market forecasts. Meanwhile, regular pay which excludes bonus payments, rose 6.7%, slightly higher than 6.6% in the previous period but below forecasts of 6.8%.

The annual consumer price inflation rate in the UK fell to 8.7% y/y in April, the lowest since March 2022, due to a sharp slowdown in electricity and gas prices. Still, the inflation rate exceeded both market expectations of 8.2% and the Bank of England's forecast of 8.4% - and remained well above the Bank of England's target of 2.0%. Meanwhile, the core inflation rate, which excludes food and energy, jumped to 6.8%, the highest since March 1992 and well above consensus forecasts of 6.2%. Although the Bank of England had matched expectations by raising Bank Rate to 4.5% earlier in the month, the market responded to this data by pencilling in further rate rises across the bulk of the remainder of this year.

Retail sales volumes in the UK rose by 0.5% m/m in April, partly reversing March's weather related 1.2% decline and exceeding market expectations of 0.3% growth. The improvement in retail sales was mirrored in the GfK Consumer Confidence indicator, which rose to -27 in May from -30 in April, matching consensus forecasts. This represented the fourth consecutive rise in the series as British households became more optimistic about the economy and their finances, despite elevated inflation pressures.

Public sector net borrowing (PSNB ex) was £25.6 billion in April, £11.9 billion more than in April 2022 and the second-highest April borrowing since monthly records began in 1993. Although receipts rose, spending grew by 14.1% courtesy of the additional costs of the energy support schemes, increases in benefit payments and higher debt interest payable.

The US economy unexpectedly added 253,000 jobs in April, above forecasts of 180,000 and following a downwardly revised 165,000 gain in March. As a result, the US unemployment rate fell to 3.4% compared to 3.5% in March. Q1 GDP growth, meanwhile, was revised to a 1.3% annualised rate compared to 1.1% according to the preliminary (advance) estimate. The inflation rate eased to 4.9% y/y in April compared to 5% in March as a result of further falls in energy prices and slower growth in food prices. However, the Federal Reserve raised the Fed Funds Rate by 0.25% to a range of 5%-5.25% during its May meeting, bringing borrowing costs to their highest level since September 2007.
The initial reading of the Eurozone's quarterly economic growth was confirmed at 0.1% during the first quarter of 2023, matching market expectations. The annual inflation rate in the Euro Area was confirmed at 7% in April compared to 6.9% in March. With inflation still above the central bank's 2% target, it was no surprise to see the European Central Bank raise their key interest rate by 0.25% to 3.75% during their May meeting.

Housing

According to the Nationwide House Price Index, UK house prices fell for the third consecutive month in April, leaving them 2.7% lower than a year ago. Although house prices also fell during April according to the Halifax House Price Index, they remain 0.1% higher twelve months ago.

Currency

Sterling fell slightly against the Dollar but rose marginally against the Euro over the month.

May	Start	End	High	Low
GBP/USD	$1.2521	$1.2394	$1.2630	$1.2333
GBP/EUR	€1.1403	€1.1626	€1.1626	€1.1339

Forecast

Both Link and Capital Economics revised their Bank Rate forecasts in the wake of the stronger than expected UK inflation data, raising the forecast peak in Bank Rate to at least 5%.

Bank Rate	Now	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Link Group	4.50%	4.75%	5.00%	5.00%	4.75%	4.50%	4.00%	3.50%	3.25%	2.75%	2.50%	2.50%	2.50%
Capital Economics	4.50%	4.75%	5.25%	5.25%	5.25%	5.25%	4.75%	4.50%	4.00%	3.50%	3.25%	3.00%	-

City Of London Corporation

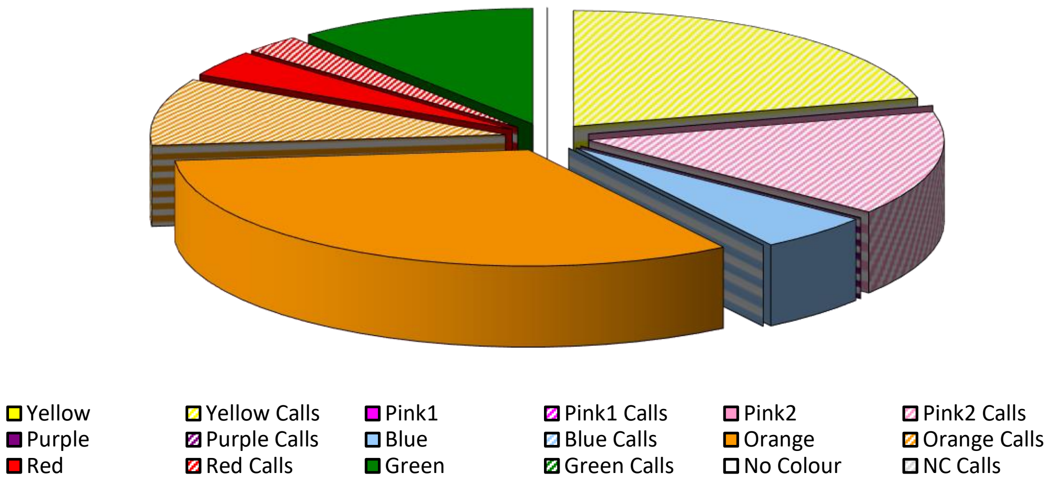
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	31,000,000	4.44%		MMF	AAAm	
MMF CCLA	50,800,000	4.46%		MMF	AAAm	
MMF Deutsche	43,000,000	4.45%		MMF	AAAm	
MMF Federated Investors (UK)	40,000,000	4.44%		MMF	AAAm	
MMF Invesco	37,800,000	4.42%		MMF	AAAm	
USDBF Aberdeen Standard Investments	51,973,351	3.01%		USDBF	AAAf	
USDBF Federated Sterling Cash Plus Fund	26,076,296	2.71%		USDBF	AAAf	
USDBF Payden Sterling Reserve Fund	62,000,719	1.25%		USDBF	AAAf	
Australia and New Zealand Banking Group Ltd	45,000,000	4.68%		Call5	A+	0.001%
Toronto Dominion Bank	20,000,000	4.08%	12/01/2023	12/06/2023	AA-	0.001%
DBS Bank Ltd	20,000,000	2.51%	16/06/2022	16/06/2023	AA-	0.001%
Toronto Dominion Bank	20,000,000	3.97%	22/09/2022	22/06/2023	AA-	0.001%
Cooperatieve Rabobank U.A.	20,000,000	2.90%	30/06/2022	29/06/2023	A+	0.004%
Leeds Building Society	20,000,000	2.09%	01/07/2022	03/07/2023	A-	0.004%
National Australia Bank Ltd	25,000,000	5.10%	13/10/2022	13/07/2023	A+	0.005%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	50,000,000	2.79%	18/07/2022	18/07/2023	A+	0.006%
National Westminster Bank Plc (RFB)	25,000,000	2.80%	09/08/2022	09/08/2023	A+	0.009%
National Westminster Bank Plc (RFB)	25,000,000	2.80%	12/08/2022	14/08/2023	A+	0.009%
Goldman Sachs International Bank	15,000,000	3.02%	15/08/2022	15/08/2023	A+	0.009%
Goldman Sachs International Bank	20,000,000	4.75%	02/05/2023	04/09/2023	A+	0.012%
Toronto Dominion Bank	20,000,000	4.70%	22/12/2022	22/09/2023	AA-	0.007%
DBS Bank Ltd	20,000,000	4.87%	12/05/2023	12/10/2023	AA-	0.008%
DBS Bank Ltd	25,000,000	5.10%	30/05/2023	30/10/2023	AA-	0.009%
National Australia Bank Ltd	20,000,000	4.39%	07/02/2023	07/11/2023	A+	0.020%
Cooperatieve Rabobank U.A.	15,000,000	4.57%	15/02/2023	15/11/2023	A+	0.021%
Barclays Bank Plc (NRFB)	20,000,000	4.73%	17/11/2022	17/11/2023	A+	0.021%
Barclays Bank Plc (NRFB)	20,000,000	4.66%	16/01/2023	30/11/2023	A+	0.023%
Santander UK PLC	25,000,000	4.10%		Call184	A	0.023%
Australia and New Zealand Banking Group Ltd	45,000,000	4.68%		Call185	A+	0.023%
National Australia Bank Ltd	20,000,000	4.98%	17/04/2023	17/01/2024	A+	0.029%
Barclays Bank Plc (NRFB)	25,000,000	4.81%	01/02/2023	01/02/2024	A+	0.030%
Barclays Bank Plc (NRFB)	20,000,000	4.75%	16/02/2023	16/02/2024	A+	0.032%
Toronto Dominion Bank	20,000,000	5.27%	15/05/2023	15/05/2024	AA-	0.022%
Toronto Dominion Bank	20,000,000	5.72%	24/05/2023	24/05/2024	AA-	0.022%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
L&G	74,882,250	-3.09%				
ROYAL LONDON	74,595,248	-3.03%				
Total Investments	**£1,112,127,864**	**2.99%**				
Total Investments - excluding Funds	**£962,650,366**	**3.93%**				0.013%
Total Investments - Funds Only	**£149,477,498**	**-3.06%**				

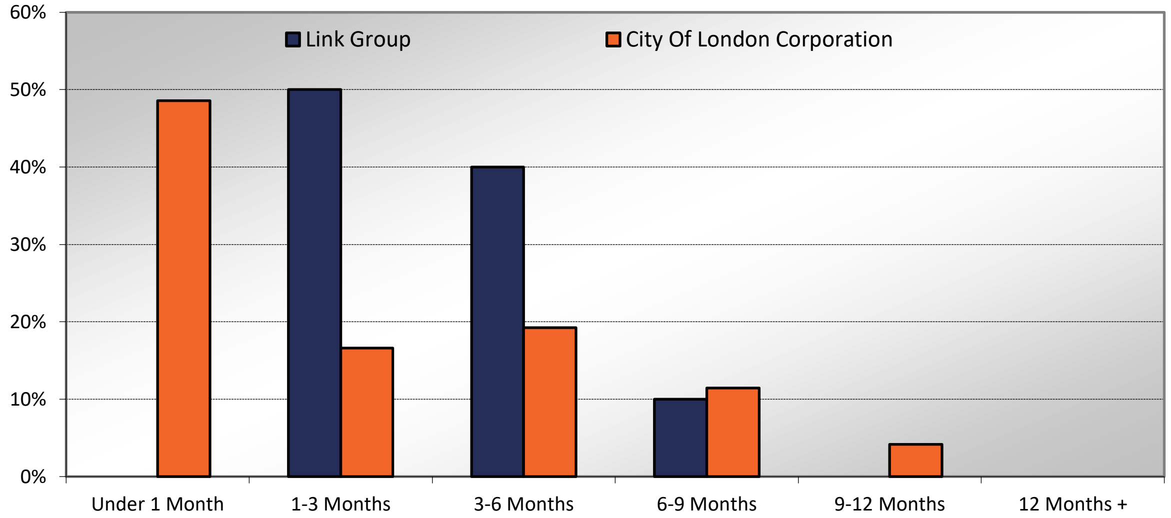
Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to 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 = 3.23

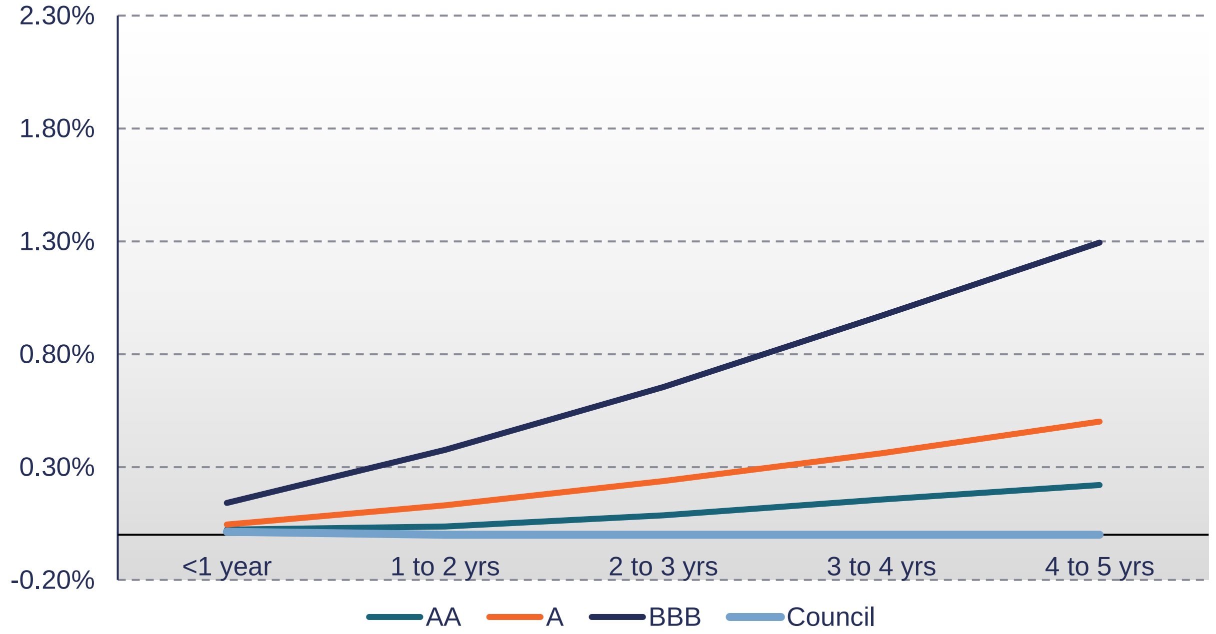
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	21.05%	£202,600,000	100.00%	£202,600,000	21.05%	4.44%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	14.55%	£140,050,366	100.00%	£140,050,366	14.55%	2.17%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	5.19%	£50,000,000	0.00%	£0	0.00%	2.80%	73	366	73	366
Orange	42.07%	£405,000,000	22.22%	£90,000,000	9.35%	4.33%	116	244	122	286
Red	6.23%	£60,000,000	41.67%	£25,000,000	2.60%	4.04%	128	210	87	228
Green	10.91%	£105,000,000	0.00%	£0	0.00%	4.24%	182	356	182	356
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£962,650,366**	**47.54%**	**£457,650,366**	**47.54%**	**3.93%**	**80**	**174**	**127**	**305**

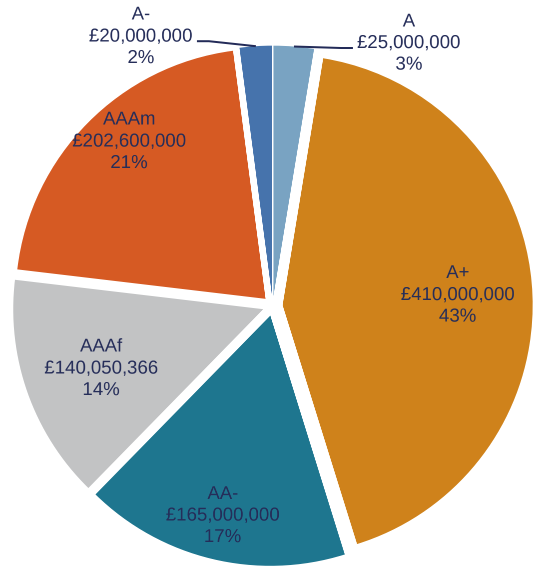
City Of London Corporation

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%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
Council	0.01%	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.

City Of London Corporation

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
04/05/2023	1969	Bank of America N.A.	United States	The Long Term Rating was upgraded to 'Aa1' from 'Aa2' and the Outlook on the Long Term Rating was changed to Stable and removed from Positive Watch.

City Of London Corporation

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
02/05/2023	1968	France (Soverieign Rating)	France	The Sovereign Rating was downgraded to 'AA-' from 'AA' and the Outlook on the Sovereign Rating was changed to Stable from Negative.
25/05/2023	1972	United States (Soveriegn Rating)	United States	The Sovereign Rating was placed on Negative Watch and removed from Stable Outlook.
31/05/2023	1973	United Overseas Bank Ltd.	Singapore	The Outlook on the Long Term Rating was changed to Stable from Negative.

City Of London Corporation

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
17/05/2023	1970	Deutsche Bank AG	Germany	The Outlook on the Long Term Rating was changed to Positive from Stable.
19/05/2023	1971	Barclays Bank UK PLC (RFB)	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.
19/05/2023	1971	Barclays Bank PLC (NRFB)	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.

City Of London Corporation

Committee(s)	Dated:
Investment Committee – For information	07 July 2023
Subject: City Surveyor's Business Plan 2022-27 Quarter 4 2022/23 Update	**Report – public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**4, 7, 11, 12**
Does this proposal require extra revenue and/or capital spending? N/A	**N**
If so, how much? N/A	**N/A**
What is the source of Funding? N/A	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department? N/A	**N/A**
Report of: The City Surveyor (CS 176/23)	**For Information**
Report author: John Galvin / Faith Bowman City Surveyor's Department	

Summary

This report provides Members of Investment Committee (IC) details of progress in quarter 4 (January to March) 2022/23 against the 2022-27 Business Plan. A similar report is presented to Members of Operational Property and Projects Sub Committee (OPPSC, CS 184/23).

The department has continued to perform well in a challenging environment. The delivery of core services remains the focus of the team, and normalising performance following the considerable turbulence arising from the COVID-19 pandemic.

At the end of the reporting year, of the nine departmental key performance indicators (KPIs) relevant to this Committee, three achieved (green), and four failed (red) to meet their targets. One measure is reported in odd quarters, and one final measure (MSCI performance benchmark) was being finalised at the time of writing this report.

The red indicators were as follows:

- KPI. 4 – Delivery of Climate Action Strategy Milestones – Investment Property
- KPI. 7 – Capital Projects – project risk status
- KPI. 10 – Rental forecasts
- KPI. 11 – Minimise arrears

The City Surveyor's end of year outturn reveals that the department was overspent by £569,000 at year end on City Fund and City Cash services. This was against a budget of £28.9m (2%). Bridge House Estates services were £777,00 underspent.

Recommendation(s)

That Members note the content of this report.

Main Report

Background

1. In line with the City Corporation's performance management approach this is a quarterly report on the progress made during quarter 4 of 2022-23 (January to March) against the 2022-27 Business Plan.

Current Position

2. This report provides the latest budget information which is set out in Appendix A. Appendix B provides a detailed table of the department's Key Performance Indicators (KPIs). This indicates to which Committee (OPPSC or IC) a measure is being reported. Charts of performance indicators are included in Appendix C. Commentary on the commercial property market is included in Appendix D. An update on Climate Action Strategy is included as Appendix E.

3. A separate monitoring report on the risks within the department is also circulated for this meeting.

Financial Statement

4. The City Surveyor's end of year outturn reveals that the department was overspent by £569,000 at year end on City Fund and City Cash services. This was against a budget of £28.9m (2%). Bridge House Estate services were £777,000 underspent, largely due to savings on business rates, lower than anticipated voids, and from some business rate refunds in earlier years. If this is considered, the overall position is an underspend of £208,000 against a total budget of £31.2m (0.7%).

5. The full details of the variances are set out in Appendix A. The overspend on the City Surveyor's City Fund and City Cash services is principally due to residual Target Operating Model (TOM) and carried forward Fundamental Review (FR) savings targets not being achieved in the year. This included £280,00 of cross cutting FR savings relating to the centralisation of project and asset management across the City, which predate the TOM and cannot now be achieved under the delivered TOM design. Going forward it has been agreed that these FR savings will be met from the overall savings on the new Integrated Facilities Management contract which came into effect in April 2023.

Quarter 4 2022/23 update

6. A RAG status is used to summarise the progress of the performance indicators we are measuring on a quarterly basis. The table below provides an 'at a glance' status report for the City Surveyor's KPIs for both its reporting Committees at the end of quarter 4.

Status[1]	Green	Amber	Red	TBC	N/A
Operational Property and Projects Sub Committee	4		4		
Investment Committee	3		4	1	1
Overall [2]	4		7	1	1

7. For the department, four measures achieved their target (green) whilst seven failed to do so (red). One measure (KPI. 12 – minimise voids) is reported every six months in quarters 1 and 3, and one further measure (KPI. 13 – outperform MSCI benchmark) was still being finalised at the time of writing this report. This figure will be reported separately to the July IC.

8. The following four measures relevant to IC were behind target.

    A. <u>KPI. 4 – Delivery of Climate Action Strategy (CAS) milestones – investment property</u>

    The objective of this KPI is to achieve the milestones in the delivery plan for Climate Action Strategy for the Investment Property Portfolio consisting of a set of sub-tasks to progress towards net zero.

    At the end of the reporting year, there was a delay to three workstreams. These will be completed by July 2023. Full details are contained in Appendix E.

    B. <u>KPI. 7 – Capital projects – project risk status</u>

    This indicator looks at the RAG status of each project with target that fewer than 20% of projects have an overall assessment of “red”. At quarter 4 this was 43%.

    A significant number of projects are outside of target, this principally due to increased cost resulting from high levels of construction price inflation (as highlighted in the department’s risk register), and extended programmes resulting from COVID-19.

[1] Red = High Risk of Failure or Not Achieved; Amber = Some Concern; Green = On Target or Achieved.
[2] Some KPIs relate to both IC and OPPSC. Therefore, row indicating KPIs overall is not a total of the IC and OPPSC rows.

C. KPI. 10 – Rental forecasts

This measure assesses our rental forecasts against that made at the commencement of the reporting year.

The difference between the March 2023 outturn and that estimated earlier in the year reflects a combination of sales completing earlier than anticipated. Further detail is provided in the Investment Property Monitoring Report, also reported to this Committee.

D. KPI. 11 – Minimise arrears

This measure had a target which reduced quarter-on-quarter, attempting to model a return to 'normal'. The end-of-year target for this measure was under 2%. The 2% target is in line with pre-COVID performance targets.

The end of year performance reported 5.7%, in excess of the target. Despite this figure, it should be highlighted that as recently as June this item was recording 9.3% arrears.

Conclusion

9. Over 2022/23 the department continued to perform well whilst completing organisational changes under the TOM. Whilst some measures did not achieve the target set the relevant teams are working diligently to recover time and ensure that programmes are delivered in line with expectations. Whilst the department's local risk budget position remains challenging, particularly with the impact of inflation, CSD continues to achieve new income and capital receipts for the wider organisation.

Appendices

- Appendix A — Budget Monitoring Statement
- Appendix B — Key Performance Indicator Table
- Appendix C — Headline Performance Charts
- Appendix D — Market Commentary
- Appendix E — Climate Action Strategy – Investment Property

Background Papers

- The City Surveyor — The City Surveyor's Business Plan 2022-27 (CS 454/21)
- The City Surveyor — The City Surveyor's Business Plan 2022-27 – Quarter 1 2022/23 Update (CS 271/22)
- The City Surveyor — The City Surveyor's Business Plan 2022-27 – Quarter 2 2022/23 Update (CS 361/22)
- The City Surveyor — The City Surveyor's Business Plan 2022-27 – Quarter 3 2022/23 Update (CS 065/22)

Faith Bowman
John Galvin
Departmental Performance & Services
City Surveyor's Department

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Budget Monitoring Statement

LOCAL RISK BUDGET Year to 31st March 2023	Final Approved Budget £000	2022/23 Actual Spend £000	Under / (Over) Spend £000	Note
City Fund				
City Fund Estate & Leadenhall	(2,080)	(1,886)	194	1
Walbrook Wharf	(1,072)	(1,026)	46	
Mayor's & City of London Court	(20)	(16)	4	
Central Criminal Court	(382)	(499)	(117)	2
Lower Thames St Roman Bath	(7)	(8)	(1)	
R&M & MI Work for other departments	(1,283)	(1,429)	(146)	3
Corporate FM cleaning & security	(97)	(111)	(14)	
	(4,941)	(4,975)	(34)	
City's Cash				
City's Estate	(2,582)	(2,340)	242	4
Departmental	(9,421)	(10,298)	(877)	5
Mayoralty & Shrievalty	(93)	(36)	57	
R&M & MI Work for other departments	(1,883)	(2,041)	(158)	6
Corporate FM cleaning & security	(626)	(687)	(61)	
	(14,605)	(15,402)	(797)	
Guildhall Administration				
Guildhall Complex	(9,329)	(9,067)	262	7
	(9,329)	(9,067)	262	
Total City Surveyor Local Risk excl BHE	**(28,875)**	**(29,444)**	**(569)**	
Bridge House Estates				
Bridge House Estates	(2,085)	(1,284)	801	8
Tower Bridge Corporate FM cleaning	(262)	(286)	(24)	
	(2,347)	(1,570)	777	
Total City Surveyor Local Risk incl BHE	**(31,222)**	**(31,014)**	**208**	

1. Savings principally on cyclical works, facilities management salaries, and professional fees. This was, in part, offset by a resulting reduction in service charges.

2. Overspend due to higher salary costs arising from agency cleaning staff and security overtime needed for events. Further significant energy price increases impacted this budget line.

3. There was an increase in one off reactive work across the portfolio as footfall rose as COVID-19 restrictions were lifted.

4. Savings principally due to reduction in the landlord's cyclical works programme to reflect planned disposals.

5. The overspend is mainly due to the residual Target Operating Model (TOM) and Fundamental Review (FR) savings target not being achieved or delayed. This includes £280k of cross cutting FR savings relating to centralisation of project and asset management which could not be achieved. They are planned to be

met from 2023/24 from savings achieved on the new Integrated Facilities Management contract.

6. There was an increase in one off reactive works across the portfolio due to higher footfall as COVID-19 restrictions were lifted, particularly on open spaces.

7. The underspend was primarily due to savings on water costs due to a rebate received, a reduced requirement in relation to clothing and uniform, on fees and services, and an energy rebate due to the Power Purchase Agreement.

8. The underspend was principally due to a saving on business rates. There were some significant business rate refunds achieved in respect of previous financial years, together with lower voids than anticipated, meaning the tenants picked up the anticipated rating costs rather than the City Corporation.

9. These figures exclude those savings, new income, and capital receipts generated for organisational budgets beyond City Surveyor’s Department.

KPI Performance Table
Quarter 4 2022/23

Appendix B

Key Performance Indicators												
Ref	Title				Q1		Q2		Q3		Q4	
		Target	Group	Committee	Actual	RAG	Actual	RAG	Actual	RAG	Actual	RAG
KPI. 1	Asset Realisation and additional income	£19.6m	CPG	OPPSC	on target	green	on target	green	off target	amber	£6.0m	red
KPI. 2	Space Utilisation*	£4,728	CPG	OPPSC	n/a	n/a	£5,867	amber	n/a	n/a	£5,666	red
KPI. 3	Delivery of Climate Action Strategy Milestones - operational estate	<5%	OG	OPPSC	>5%	amber	>5%	amber	>3%	amber	>1%	red
KPI.4	Delivery of Climate Action Strategy Milestones - investment property	on schedul	OG	I C	on target	green	mth dela	amber	2 mth delay	amber	Delayed	red
KPI. 5	Property contract Performance Compliance	> 90%	OG	OPPSC	98.5%	green	99.2%	green	95.6%	green	97.2%	green
KPI. 6	Adherence to Budgetary Spend Profiles	95% - 105%	All	I C; OPPSC	17.0%	green	36.2%	green	59.1%	amber	96.4%	green
KPI. 7	Capital Project - Project Risk Status	< 20%	PPG	I C; OPPSC	20.0%	green	27.0%	green	43.0%	amber	43.0%	red
KPI. 8	Capital Project- Health & Safety*	80%	PPG	I C; OPPSC	n/a	n/a	81.0%	green	n/a	n/a	88.0%	green
KPI. 9	Capital Project - Site sustainability waste management	> 90%	PPG	I C; OPPSC	97.0%	green	94.0%	green	99.0%	green	98.0%	green
KPI. 10	Rental Forecasts	£94.19m	IPG	I C	£94.39m	green	£96.29m	green	£95.99m	green	91.15m	red
KPI. 11	Minimise Arrears (reducing target <9% June,<7%Sept,<5%Dec <2%March)	<2%	IPG	I C	9.3%	green	5.2%	green	5.0%	green	5.7%	red
KPI. 12	Minimise voids (*)	<5%	IPG	I C	3.8%	green	n/a	n/a	2.0%	green	n/a	n/a
KPI. 13	Outperform MSCI**	exceed ber	IPG	I C	n/a	n/a	n/a	n/a	n/a	n/a	tbc	tbc
	*reported bi annually											
	** reported annually											
	Investment Committee (IC) and Operational Property and Projects Sub Committee (OPPSC)											

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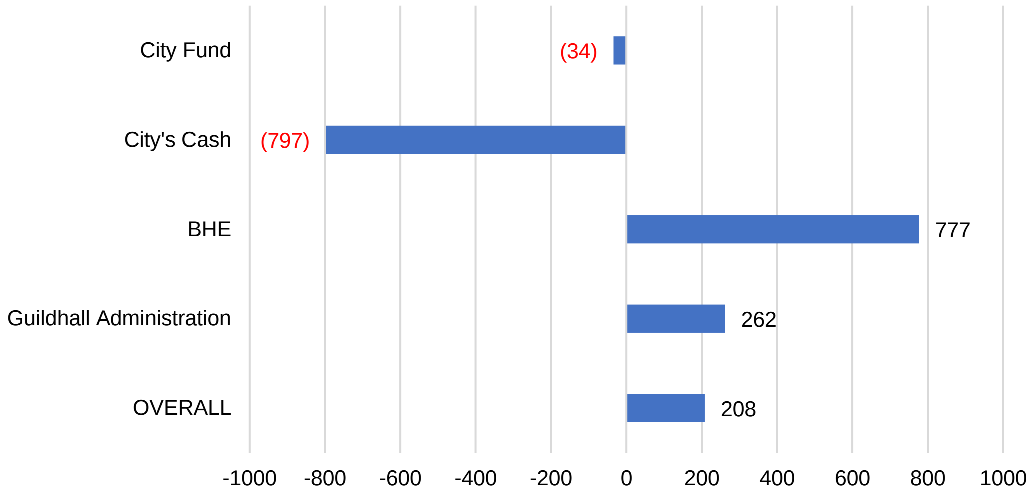

Figure 1 Year end variance against profiled local risk budget – (overspend) or underspend (£'000)

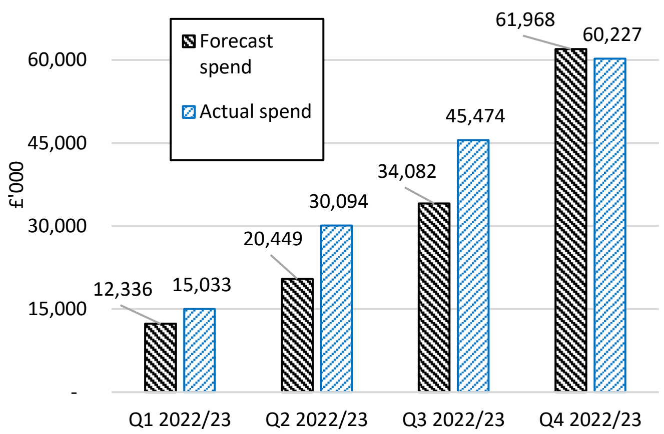

Figure 2 All project spend, forecast v actual

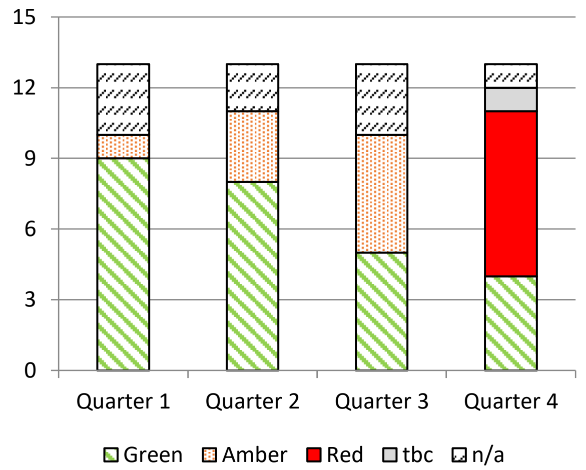

Figure 3 Performance of departmental KPIs overall

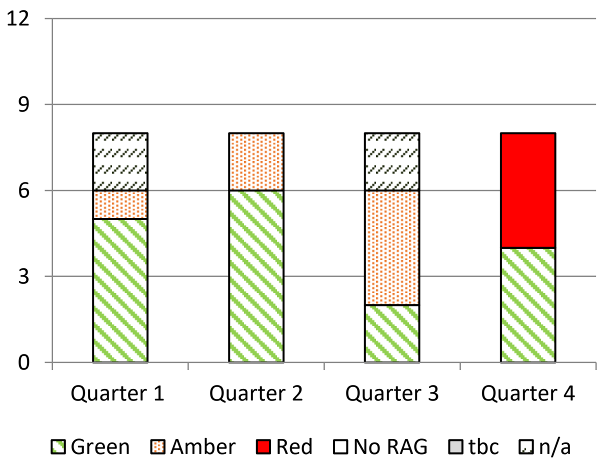

Figure 4 Performance of KPIs linked to Corporate Property (Operational Property and Projects Sub Committee)

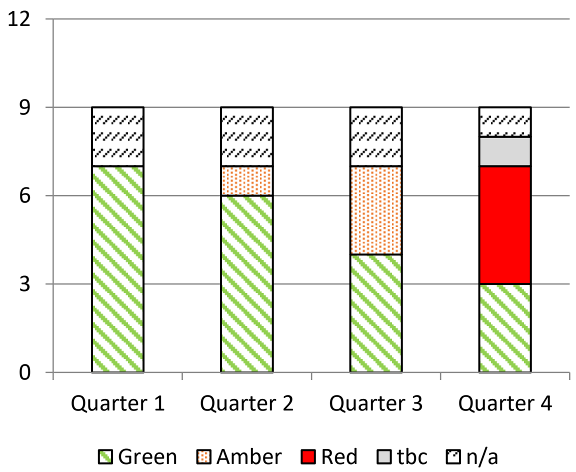

Figure 5 Performance of KPIs linked to Investment Property (Investment Committee)

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January to March

1. In the West End office leasing market, after a slow start to the year, Savills reported take up of 335,275 sq ft across 27 transactions in February (double the previous month's figure). Due to the low levels of space acquired in January year-to-date take-up was 25% below the 10-year average. Supply fell by 4.2% to 7.3m sq ft.

2. The 'flight to quality' trend continued. Occupiers cite the importance of strong sustainability credentials playing a part in their selection of offices as they seek to meet ESG (Environmental – Social – Corporate Governance) targets, such as buildings with the environmental certification of BREEAM 'Excellent' ratings. Furthermore, tenants have increasingly focused on more central locations as workers value proximity to nearby retail and leisure facilities post-pandemic.

3. After several months of remaining static, the vacancy rate dropped 30 bps from the previous month to 6.1%. This was primarily due to space being withdrawn, the vast majority of which was Grade B tenant-controlled space, predominantly concentrated in fringe markets such as Hammersmith and Vauxhall, Nine Elms & Battersea. It is worth noting that typically Grade B tenant space makes up just 4% of annual take-up. Savills expect this to be a temporary drop, as they forecast the West End vacancy rate to rise to 7.2% by the end of the year, with a record level of development completions set for delivery in 2023. On the plus side c200,000 sq ft of space has been placed under offer and active demand has increased to 3.88m sq ft, the highest since September. Average Grade A rents increased to £90 per sq ft. This stands in contrast to average Grade B rents, which have declined significantly to £40 per sq ft.

4. In the City office leasing market, Savills reported take-up of 268,341 sq ft in February. The 12-month rolling average has fallen for the third consecutive month. Caution surrounding the macroeconomic environment is leading to space remaining under offer for longer (2.1m sq ft is under offer which is 49% above the long-term average of 1.4m sq ft).

5. Agents are reporting occupiers are now reassessing requirements, with many including a 'Stay Put' option in their shortlists. The argument being that unless moving to best-in-class space, the cost of dilapidations and fit-out is too high to warrant moving to marginally better-quality space. This has further intensified the polarisation in the market, with 94% of take-up this year being Grade A. Average Grade A rents stand at £68 per sq ft with average Grade B rents improving to £50 per sq ft.

6. Total City supply has decreased marginally, settling at 13.4m sq ft, the vacancy rate is 9.5% which is high compared to the long-term average (6.3%). However, the bifurcation within the market means the vacancy rate amongst prime stock is far lower.

7. City investment volume for the January to March period reached £1.641bn across 24 deals, reflecting an average lot size of £68.38m, which is 17% and 18% lower than the five- and ten-year average, respectively. It was a solid quarter of investment activity with four deals in excess of £100m, which represented 70% of the total quarterly transaction volume. Agents reported a fall in values across the market as sellers adjust their pricing expectations. Even with falling values, there generally continues to be a disparity between sellers' and buyers' pricing expectations. Savills prime City yield stands at 4.50% and is under outward pressure.

8. West End investment volumes in the quarter totalled £675m across twelve transactions, with the majority of this activity taking place in March (58% by deal number). In January and February activity had been subdued, with only two and three transactions occurring in these months respectively. There was an uptick in March, with seven deals exchanging which were skewed towards smaller lot sizes. Savills prime West End yield stands at 4.00%.

Action Plan

1. The Climate Action Strategy for the Investment Property Portfolio contains a delivery plan, consisting of a set of sub-tasks to progress towards net zero. This Appendix provides a status update against the Year 2 plan (approved at Policy and Resources Committee on 5 May 2022).

2. Members are to note the progress as described in the tables contained in this appendix.

Task	Year 2 Project Plan		Revised		Progress Update
	Start	Finish	Start	Finish	
Undertake MEES Risk assessment, identify costs to upgrade and agree Due diligence standards.	Sept 2021	Sept 2022	Sept 2021	May 2023	• Phase 1 – 51 of 51 reports received (100%) • Phase 2 – 57 of 67 reports received (85%) • Reports are being reviewed and revised by consultants following comments by Energy Team and Asset Managers. • Remaining reports are newly added or unique and require CoL specialist input, prior to completion (i.e. Leadenhall market), which is currently being discussed prior to issue of report as soon as possible. IPG added (9) properties to the Climate Action Plan ((2) of which were recent purchases). Contractors are currently finalising the MEES reports. • Although the majority of reports are received, there were issues with the consultant, WSP, which caused delays to the project due to the completeness of output. An escalation was implemented with payment of invoices held back. Discussions with WSP to address the final quality comments were held to mitigate any further delay.
Undertake study to establish process, cost and benefit of improved metering strategy.	Apr 2022	Sept 2022			• Smart metering strategy report has been completed. Findings will be discussed within Operations Group to establish next steps in procuring smart metering upgrades. Costs will be incorporated into the Operations Plan.
Green Lease MOU pilot to evolve working template for portfolio roll out.	Apr 2022	March 2023	Apr 2022	July 2023	• IPG Asset Managers developing Green Lease template for use on new leases. • The above will help inform the Green Lease MOU for current leases. • Longer leases with distant lease brakes will be targeted with MOUs. Potential tenants are being discussed with Assistant Directors. • MEES, EPC and metering strategy commission will also help inform the Green Lease MOU.
Identify and design pathway to 60% emissions reduction by 2040	Apr 2022	March 2023	Apr 2022	Jun 2023	• Template for the operational plan has been further developed • Workshop with Assistant Directors, Asset Managers, Minor Works and Facilities Management organized to start pre-work and further design of operational plan. • This activity is delayed, due to the delay in receiving reports from consultants as well as revisions necessary to accommodate some changes in Part L regulations. CoL Asset Manager resource is also limited due to end of year activities such as valuations. Therefore, it is anticipated that the completion of this activity will be delayed. • Final comments to be addressed

Task	Year 2 Project Plan		Revised		Progress Update
	Start	Finish	Start	Finish	
Capital works – City Fund	Apr 2022	March 2040	Aug 2022	March 2040	• Projects will be implemented following the development of asset level decarbonisation plans taken from the surveys.
Capital Works – Strategic Estate	Apr 2022	March 2040	Aug 2022	March 2040	• Chiswell Street has completed upgrade to Grade B, Viper Industrial Estate is in detail design phase in anticipation of construction for Grade B. 3rd floor 63-64 New Broad Street is due to complete achieving Grade B.
Sustainable Property Specialist	Appointed				• A Sustainable Property Specialist in position and forms part of the Centre of Excellence and will drive NZ4 – Investment Property Group Project Plan.
Capital PM resource	Apr 2022	March 2027	July 2022	March 2040	• Allocation of resource cost is included within capital funding and will be managed through City Surveyors & Minor Works team

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Committee(s)	Dated:
Investment Committee – For information	07 July 2023
Subject: The City Surveyor's Corporate and Departmental Risk Register – June 2023 Update	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**4, 7, 11, 12**
Does this proposal require extra revenue and/or capital spending? N/A	**N**
If so, how much? N/A	**N/A**
What is the source of Funding? N/A	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department? N/A	**N/A**
Report of: The City Surveyor (CS 181/23)	**For Information**
Report author: John Galvin / Faith Bowman City Surveyor's Department	

Summary

This report has been produced to provide Members of Investment Committee (IC) with a quarterly update on the management of risks within the City Surveyor's Department.

The City Surveyor's Risk Register is reported to two Committees – Operational Property and Projects Sub Committee (OPPSC) (CS 183/23) and IC (CS 181/23). The way that the risks map to the two Committees are included as Appendix A. Only risks relevant to this Committee are included within the detailed risk register (Appendix B). The full departmental risk register is available on request.

There are six risks on its Departmental Risk Register relevant to this Committee. Three of these departmental risks are recorded as red. The red risks currently being managed are:

- SUR SMT 005 – Construction Price Inflation – IC & OPPSC
  Current risk score 16 (Red)
- SUR SMT 006– Construction Consultancy Management – IC & OPPSC
  Current risk score 16 (Red)
- SUR SMT 009 – Recruitment and retention of property professionals – IC &OPPSC
  Current risk score 16 (Red)

In addition, the City Surveyor is the owner for one corporate risk – CR 37 – Maintenance and renewal of Corporate Operational Assets (excluding housing assets). This risk does not fall under the terms of this Committee.

Recommendation(s)

Members are asked to note this report, and the actions taken within the City Surveyor's Department to effectively monitor and manage risks arising from our operations.

Main Report

Background

1. The City of London Corporation's Risk Management Policy and Strategy (RMP&S) requires each Chief Officer to report regularly to Committee the key risks faced in their department. Both OPPSC and IC have determined that they will receive the City Surveyor's risk register on a quarterly basis.

2. Aligned with the new reporting arrangements we are now only reporting through to your Committee the risks which are relevant under the Committee's terms of reference. For clarity and transparency Appendix A provides a summary table of all departmental risks and the Committee to which they are reported. The full departmental risk register is available to Members upon request.

3. The risks relevant to this Committee are included as Appendix B to this report.

4. Risks are reviewed regularly by the department's Senior Management Team (SMT) in line with the organisation's RMP&S. Risks are assessed on a likelihood-impact basis, and the resultant score is associated with a traffic light colour.

5. Should any changes occur between formal meetings a process exists such that risks can be captured, assessed, and mitigating activities captured. This ensures that the risk management process remains 'live'.

6. Members should note that the Chamberlain's department will be regularly reporting to IC risks relating to financial investments. This is the subject of a separate report.

Current Position

7. The key points to note for this period are captured below:

   A. SUR SMT 005 – Construction Price Inflation
      Current risk score 16 (Red)

      Over the past 12-24 months, the construction industry has seen significant input price inflation. Whilst the peaks of this uplift have started to fall back, inflation is still high in the sector. Further, whilst some products have seen prices reduce, others (notably labour) are expected to remain at an elevated level. Within the City of London context, existing contracts will continue to suffer from costs in excess of those initially anticipated at project commencement.

B. SUR SMT 010 – Insurance – Investment & Corporate Estate
Current risk score 12 (Amber)

The City Corporation needs to ensure that it keeps an up-to-date register of property valuations to ensure that it meets provisions under its insurance policies. This activity has now been funded and is underway. As this progresses it is expected that the scoring associated with this risk will reduce.

8. Since the last review in February, there were no new departmental level risks identified. This will be kept under review.

Heatmap

9. Through the performance dashboard tool, Power BI, it is possible to create heatmaps of the department's risks as below. This is a graphical summary of the current departmental risks (left). A comparison with the those presented at the last report (February) is included as the table on the right. Note that the table includes the Corporate Risk and all departmental risks that are being managed by the department.

10. The Heatmaps do not track individual risks over time, rather it is a snapshot comparison of the overall risk profile. Whilst the overall profile of the risks did not change between the two periods, a number of mitigations have been progressed. In many instances it was considered prudent to retain the risks at their current level considering wider economic uncertainty.

	Minor	Serious	Major	Extreme
Likely		1	4	
Possible		1	4	
Unlikely				
Rare				

Table 1: June 2023 Risk Heatmap

	Minor	Serious	Major	Extreme
Likely		1	4	
Possible		1	4	
Unlikely				
Rare				

Table 2: February 2023 Risk Heatmap

Conclusion

11. Members are asked to note the recent changes to the departmental risk register, and the actions taken by CSD to mitigate the likelihood and/or impact of the risks.

Appendices

• Appendix A	Risks by Committee
• Appendix B	The City Surveyor's Corporate and Departmental Risk Register relevant to this Committee

Background Papers

• The City Surveyor	The City Surveyor's Departmental Risk Register – September 2022 Update (CS 270/22)
• The City Surveyor	The City Surveyor's Departmental Risk Register – November 2022 Update (CS 357/22)
• The City Surveyor	The City Surveyor's Departmental Risk Register – February 2023 Update (CS 059/23)

John Galvin
Faith Bowman
Departmental Performance & Services
City Surveyor's Department

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Risks by Committee

1. The City Surveyor's Department (CSD) is currently managing one risk at the Corporate level (CR 37) and a further nine at the departmental level.

2. Outlined in the table below is how these risks relate to the two reporting Committees, Operational Property and Projects Sub Committee (OPPSC) and Investment Committee (IC).

3. Of the ten total risks, nine relate to OPPSC and six to Investment Committee.

4. Only risk relevant to the specific Committee will be presented to that Committee. The full list of risks and their mitigations are available upon request.

Code	Title	OPPSC	IC	Score
CR 37	Maintenance and renewal of Corporate Operational Assets (excluding housing assets)	X		16
SUR SMT 005	Construction Price Inflation	X	X	16
SUR SMT 006	Construction Consultancy Management	X	X	16
SUR SMT 009	Recruitment and retention of property professionals	X	X	16
SUR SMT 002	Insufficient budget to meet user and asset demand at Guildhall	X		12
SUR SMT 003	Investment Strategy Risk		X	12
SUR SMT 010	Insurance - Investment and Corporate Estates	X	X	12
SUR SMT 011	Contractor Failure	X	X	12
SUR SMT 007	Energy Pricing	X		8
SUR SMT 008	Special Structures	X		6

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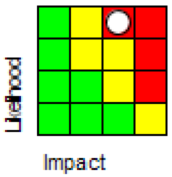
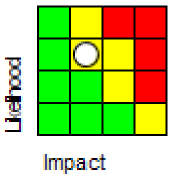
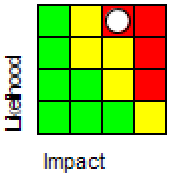
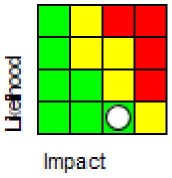
SUR Departmental risks - detailed report EXCLUDING COMPLETED ACTIONS for COMMITTEE

Report Author: Faith Bowman
Generated on: 02 June 2023

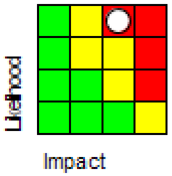
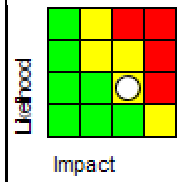
Rows are sorted by Risk Score

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
SUR SMT 005 Construction Price Inflation 14-Oct-2021 Ola Obadara	**Cause**: Market conditions have led to input price inflation **Event:** Project and programme cost escalation **Impact**: Inability to delivery capital and revenue projects within budget		**16**	Material costs and labour availability are combining to raise costs. Construction inflation is forecast to level out over the coming months, although not reduce. Existing contracts will continue to suffer from costs in excess of those initially anticipated at project commencement. Market conditions remain dynamic and will be kept under review. At this time it is felt appropriate that the risk score remain at its current level. **02 Jun 2023**		**6**	31-Mar-2024 Reduce	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 005a	Procurement Strategy	The department is working with legal and procurement to identify different buying options, thereby managing the risk to the department / organisation. This exploration included a review of the prior Single Stage tender process (which had been preferred for medium range projects - £2m - £50m). Following the review Two Stage contracts will be used more frequently. This is the current market norm for these projects. The change enables contractors to better transfer their risk and leaves the City with a degree of cost uncertainty, even post Gateway 5. Whilst this transfer is not desired, it offers far better market coverage and reflects the prevailing external conditions. This will be kept under review.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 005d	Contracts	Chamberlain's procurement and the department have explored the inclusion of fluctuating provisions in our contracts. This action has resulted in attracting a greater number of contractors to bid on projects, however the inflation risk has been transferred to the organisation. The value of this approach will be continually reviewed.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 005e	Contract Engagement	We are looking to engage early with our contractors on a consultancy basis to obtain as much information as possible prior to contract.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 005f	Specification and Materials	Ensuring materials are readily available before and during the design phase and, if possible, procure in advance of the contract. Further consideration is being given to the origin of source materials to ensure supply.	Ola Obadara	02-Jun-2023	31-Mar-2024

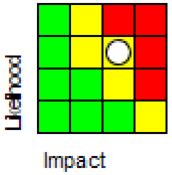
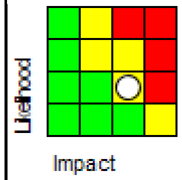
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
SUR SMT 006 Construction Consultancy Management 14-Oct-2021 Ola Obadara	**Cause**: Poor performance by consultants **Event:** Abortive work, delays, or non-performance. **Impact**: Additional costs, project delays		**16**	This relates to abortive design / development. The department continues to suffer the impacts of this risk, with action being taken against consultants when their performance does not meet expectations. Aligned with other departmental risks, the department is stretched for resource. This had led to fewer leads being responsible for a greater number of projects. This reduces scrutiny capacity and can increase the likelihood of errors. There is a link to our internal recruitment and retention risk (SUR SMT 009) as property professionals across the industry are moving companies at a greater rate. This means that the delivery lead often changes throughout the life of the project, and replacements are often not at the same quality as those engaged at earlier stages. **02 Jun 2023**		**4**	31-Mar-2024 Reduce	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 006a	Commissioning stage	The department has commenced going to market at RIBA stage 3 rather than RIBA stage 4. This is designed to prevent abortive design and development. This change followed close work with the procurement team in Chamberlain's. The impact of this change will be tracked over the coming months.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 006b	Legal	The team is working closely with the legal department to ensure that procurement activity aligns with project objectives and the consultants meet quality requirements. Where performance has been poor action has been taken against consultants – these cases increase end-to-end timescales.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 006c	Procurement	Working with Procurement to increasing due diligence, particularly in regard to the quality of contractor appointed (rebalancing the quality/cost equation). This is with the view that we will get better quality applications and this risk may reduce.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 006d	Scope of works	The team is reviewing and tightening up the scope of works specification. This will counter opportunistic interpretations of the scope of works that we were seeing from some consultants.	Ola Obadara	02-Jun-2023	30-Sep-2023

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
SUR SMT 009 Recruitment and retention of property professional	**Cause**: Uncompetitive pay and benefits structures within some professional grades; poor quality work environments; lack of professional progression over recruitment freeze and restructuring period; increased employee focus on work-life balance **Event**: Increasingly difficult to recruit suitably skilled staff at the correct level for the grade being recruited for. Increasingly difficulty to keep staff who get better reward packages from other organisation (both commercial and public sector) **Impact:** Increased vacancies, objectives unachieved or delivered late (including project delivery and income generation), reduced customer satisfaction, less real estate activity, reduced employee wellbeing, demotivation of staff. Increased costs born by the organisation though recruitment campaigns and training etc, or to the department through filling vacancies through comparatively expensive temporary contracts.		**16**	This risk has been identified within a number of divisions within the City Surveyor's Department. The impacts vary by Group with the risk being particularly acute in Investment Property, Surveying and Project Management. This is aligned to pressures faced in other City departments, and CSD is engaging with corporate colleagues to ensure that the particular pressures felt within this department are understood broadly. This is reflected within the 8 themes identified and communicated by Corporate HR. The City's pay and reward review has recently commenced (January 2023) and the external consultancy Corn Ferry will be assisting in this analysis. The City Surveyor has scheduled meetings. The City's revised workplace posture (minimum 2 days in-the-office working) is being seen as a positive by staff and assists in the retention of staff who may otherwise leave for greater reward packages at competitor organisations. Whilst these activities are being pursued corporately, the department continues to ensure that it does everything it can do internally to mitigate this risk.		**8**	31-Mar-2023	

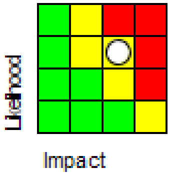
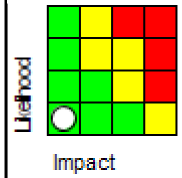
21-Jan-2022				**02 Jun 2023**			Reduce	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 009a	Advertising	The department and the HR Business Partner has produced a recruitment best practice document, which includes ensuring that vacant posts are advertised in areas which will generate interest from suitably qualified candidates, including those currently under-represented within our workforce.	Paul Wilkinson	02-Jun-2023	31-Mar-2024
SUR SMT 009b	Best Practice	Including delivery of appraisals, regular one-to-ones, team and group meetings. This aims to improve communications at all levels, ensuring that CSD is a positive work environment and that issues/blockers can be raised and addressed. In some areas career graded roles have been instituted, and deployment can be further explored. CSD is supporting the work of Corporate HR in moving towards all on-line appraisal documentation. This will enable greater tracking of compliance.	Paul Wilkinson	02-Jun-2023	31-Mar-2024
SUR SMT 009c	Communication	Quarterly meetings from the department's Chief Officer so all staff feel engaged with the activities of the department.	Paul Wilkinson	02-Jun-2023	31-Mar-2024
SUR SMT 009d	Engagement with HR	Some of the items highlighted as the 'causes' of this risk are outside the control of CSD, and engagement with our Corporate partners will be critical to overcoming these items. This departmental risk directly supports the Corporate Risk on "Recruitment and Retention" (CR39).	Paul Wilkinson	02-Jun-2023	31-Mar-2024
SUR SMT 009e	Equalities, Diversity and Inclusion	The department has an active ED&I network, which regularly engages with the City Surveyor and the Senior Management Team. This is seeking to make the department a more attractive destination for under-represented groups and seek to retain and progress staff from all backgrounds. There is corporate HR representation on this departmentally-led Group.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 009f	Pay and Review Survey	The Corporation is reviewing pay & reward and the department is feeding into this activity. The department has highlighted that there are specific pressures within this department which may make the issue more acute within CSD roles.	Paul Wilkinson	02-Jun-2023	31-Mar-2024

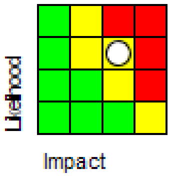
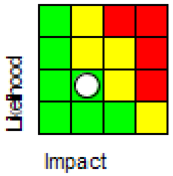
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
SUR SMT 003 Investment Strategy Risk 17-May-2021 Robert Murphy	**Cause**: The business environment declines, office workers do not return to their workplace in numbers anticipated, retail tenant failure, or demand moves away from City of London assets. **Event:** Lower rental levels achieved, lower demand, increased turnover of tenancies, increased tenant failure **Impact**: Inability to maximise property returns and income for an acceptable level of risk		**12**	This risk captures a number of sub-risks which may impact the organisation's ability to maximise its property returns for an acceptable level of risk. Rent arrears built up over the Covid-19 period are now being handled in line with business-as-usual. The arrears across the estate are now under 5%, reflecting the significant work undertaken by the department's Asset Managers to mitigate the worst impacts of Covid-19 on the Corporation's income. Greater economic uncertainty is being tracked by the team, particularly in regard to interest rates, and inflation. The department will be undertaking a tenant survey in June/July by RealService. **02 Jun 2023**		**8**	31-Mar-2024 Reduce	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 003a	Macro-economic The strategy is to maintain a diverse portfolio that reduces the impact of this risk. This includes: 1. Use (office, retail, industrial)	The actions described are being undertaken and reviewed regularly with the Assistant Directors. Consideration includes the potential for recession, inflation, energy pricing etc, and how this will impact tenants and the wider market.	Robert Murphy	02-Jun-2023	31-Mar-2024

	2. Location (City, Southwark, West End etc.) 3. Tenancies (Long term Headlease geared, FRI, directly managed) 4. Covenants (multinationals, SME) 5. Asset management (lease renewals, voids, arrears, etc) 6. Monitoring retail habits in change of building use				
SUR SMT 003b	Portfolio Ensuring that the overall composition of the investment portfolio takes advantage of emerging segments of growth, whilst managing the exposure to property types which are showing reducing demand.	This is achieved through regular market scanning, and the integration of learning into the Corporation's approach.	Robert Murphy	02-Jun-2023	31-Mar-2024
SUR SMT 003c	Climate Action The alignment of our portfolio with the future strategic needs of occupiers, particularly supporting their ESG (Environmental-Social-Governance) needs. Climate Action is principally managed through the Climate Action Strategy.	Ensure that the properties offered by the City Of London are meeting the emerging needs of tenants.	Robert Murphy	02-Jun-2023	31-Mar-2024
SUR SMT 003d	Office risk Reviewing post-pandemic office use and demand.	The department is monitoring key market use through data supplied by partners (such as football information), market research reports, and tenant feedback. The department continues to observe a 'flight to quality' – higher specified and higher quality spaces. Occupiers are increasingly considering their space as a tool in the 'war for talent'. Whilst some occupiers are downsizing their space, others are looking to create a better environment for staff through lower densities / improved amenities. This learning informs the portfolio strategy (linked to action SUR SMT 003b) The team is working with Corporate Colleagues in connection with the "Destination City" agenda, particularly in highlighting market trends to Members and key stakeholders.	Robert Murphy	02-Jun-2023	31-Mar-2024
SUR SMT 003e	Retail Changes in consumer preferences (moving to on-line retail) which has been accentuated through the COVID-19 pandemic. Elements of the City portfolio is also dependent on tourism, which is only now returning to activity seen pre-pandemic.	Arrears built up over the COVID-19 period are now being managed in line with existing business-as-usual activity. The City Surveyor's Department continues to engage with peers to understand retail market impacts. Regular arrears monitoring, including the provision of bi-monthly dashboards Rental collection snapshot is being produced by Chamberlain's Department..	Robert Murphy	02-Jun-2023	31-Mar-2024

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
SUR SMT 010 Insurance - Investment and Corporate Estates 26-May-2022	**Cause**: Revaluation of the City Corporation's estates (Investment and Corporate) does not happen in a timescale compliant with insurance policy requirements or the terms of leases. **Event**: The City fails to meet the provision under its insurance policies that revaluations are undertaken by a RICS surveyor at least every five years (Investment and Corporate). The City is in breach of its legal obligations as a landlord under the terms of its leases to ensure that the full re-instatement value is insured . **Impact:** The insurance policy does not respond in full (Investment and Corporate). Potential legal action from commercial occupiers in the event of an incident for which there is not appropriate cover.		**12**	This risk identifies the need of re-valuation of the City of London Estates – (Investment and Corporate) to ensure that the City reaches its legal obligations under its insurance policies. The last on-site valuations of the Investment Property Group estate and Corporate buildings (other than special sites) was undertaken in 2015. Funding has recently been identified and a budget is now in place. Instructions are being made to our contractors such that they can proceed with delivery. Once this is in train the risk score should start to reduce towards target. **02 Jun 2023**		**1**	31-Mar-2024 Reduce	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 010a	Register of data	A property schedule exists and this has been updated with the survey carried out on Special Sites (by RLF).	Robert Murphy	02-Jun-2023	30-Sep-2023
SUR SMT 010b	Funding	Where leases allow, the cost can be recovered from commercial tenants, and operational occupiers as appropriate. Funding has been agreed and a budget line identified (Jan 2023). As this is now in place instructions are due to be placed with contractors such that this activity can progress.	Robert Murphy; John James	02-Jun-2023	31-Mar-2024
SUR SMT 010c	Delivery	The delivery of this activity will be done by an external party, and the tender is scheduled to be published June/July period. The department is currently working with Procurement to ensure the optimal route to market.	Robert Murphy	02-Jun-2023	31-Mar-2024

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
SUR SMT 011 Contractor Failure 13-Feb-2023	**Cause**: Market conditions **Event:** Failure of either a main contractor, or a substantial sub contractor **Impact**: Delayed delivery of projects, or the delivery of projects at a higher cost		**12**	This risk relates to the failure of a main contractor, or a main sub contractor. Particularly with the second of these elements the City Corporation does not have significant influence over who is commissioned to undertake work. **02 Jun 2023**		**4**	 Avoid	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 011a	Tendering	The department has commenced work with Procurement to ensure that our commissioning takes greater account of contractor and sub-contractor failure. We may need to have a greater say in who a main contractor identifies as an appropriate sub-Contractor. Further actions to follow this initial engagement.	Ola Obadara	02-Jun-2023	31-Mar-2024
SUR SMT 011b	Review Process	The department is instituting six-monthly reviews of contractor suitability. Historically this only happened at contract commencement. This will better prepare the organisation should the contractor (or significant sub-contractor) begin to experience difficulty.	Ola Obadara	02-Jun-2023	31-Mar-2024

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FINANCIAL INVESTMENT BOARD

FRIDAY, 17 FEBRUARY 2023

NOT FOR PUBLICATION

By virtue of paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972.

11. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the non-public minutes of the meeting held on 21st October 2022 be agreed as a correct record.

As per the questions in public session, the Chair informed Members that, given the co-dependencies and need to focus on the Corporation's financial resources as, effectively, one strategic pot, consideration was being given as part of the recent Town Clerk led governance review to merge the Financial Investment Board with the Property Investment Board to form a new Investment Committee/Board, which would have Grand Committee status.

Its Members would be primarily drawn from the Finance Committee and the Policy & Resources Committee and it would have the ability to recruit Members directly from the Court of Common Council who had the right expertise. Co-opted external Members would also be considered; the total number on the new Committee would be approximately 12 and it would meet approximately six times a year with an appropriate level of delegations to officers and advice from the Chief Investment Officer function.

12. **PERFORMANCE MONITORING CITY'S CASH**

a) **Quarterly Monitoring report to 31 December 2022**
The Board received the Quarterly Monitoring Report to 31st December 2022; this Report was produced by Mercer.

In preparation before the next meeting of the Board, Members asked that consideration be given as to the performance of the various Fund Managers and, if the performance in some cases were sub-optimal, whether any changes should be recommended.

b) **Performance Monitoring to 31 December 2022**
The Board received a Report of the Chamberlain concerning performance monitoring to 31 December 2022.

The Chair reminded Members of the recent informal Financial Investment Board meeting, the papers and notes of which were due to be circulated – the session focused on the new investment strategy for the Corporation and this would form a key topic for the new Investment Committee when it was operational in the spring.

RESOLVED – that the Board noted the Report.

13. **HAMPSTEAD HEATH TRUST AND CHARITIES POOL: PERFORMANCE MONITORING TO 31 DECEMBER 2022**
The Board received a Report of the Chamberlain concerning the Hampstead Heath Trust and Charities Pool.

RESOLVED – that the Board noted the Report.

14. **SIR WILLIAM COXEN TRUST FUND: PERFORMANCE MONITORING TO 31 DECEMBER 2022**
The Board received a Report of the Chamberlain concerning the value and investment performance of the Sir William Coxen Trust Fund to 31 December 2022.

In response to a query concerning whether, in the interests of simplicity, there was scope to incorporate the Fund into the wider Charities Pool, the Chamberlain advised Members that, in 2017, the Board had been specifically requested to monitor the Fund by the Committee of Aldermen to Administer the Sir William Coxen Trust Fund.

The trustees of the Fund are five Aldermen that sit on the Committee, and they are appointed by the General Purposes Committee of Aldermen. Any changes to the arrangements of the administration of the Fund would require further consideration by that Committee; therefore, the Chamberlain proposed that officers raise this proposal with the relevant Aldermen at their next meeting in March and, if they were content, a review period could then be undertaken with an update coming back to the Board in autumn 2023.

RESOLVED – that the Board noted the Report.

15. **PRI 2021 ASSESSMENT UPDATE**
The Board received a Report of the Chamberlain concerning the Principles for Responsible Investment (PRI) Assessment report for 2021.

Members highlighted the zero scores on two of the six of the lines on pages 119 and 120 of the pack, and questioned whether this would be better described as not applicable or n/a – officers advised that this would not have been an option..

RESOLVED – that the Board noted the Report.

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

17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was no other business.

The meeting ended at 12.30 pm

Chairman

Contact Officer: John Cater
john.cater@cityoflondon.gov.uk

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Committee(s): Investment Committee	Dated: 7 July 2023
Subject: Chief Investment Role: Update and Draft SIPs	**Non-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?	**N/A**
If so, how much?	**£**
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: Caroline Al-Beyerty	

NOT FOR PUBLICATION

This report is exempt by virtue of the paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. Specifically, the report contains sensitive information which may be exempted under the Act, and as this cannot be presented to Members as a separate appendix this report needs to be considered in closed session. It is considered that information falling under the following paragraphs outweighs the public interest in disclosing information:	
3)	Information relating to the financial or business affairs of any particular person or body (including the authority holding that information).

Summary

Stanhope Capital have been appointed to the Chief Investment Officer role covering both City's Cash and City Fund. Attached at Appendix A are slides setting out the progress to date and summaries of the draft Statement of Investment Principles (SIPs) for both City's Cash and City Fund, noting that these SIPs cover both property and financial investments.

Stanhope have been working on the SIPs for both Funds and working drafts are attached at Appendix 2 (City's Cash) and Appendix 3 (City Fund). Members will note that these are "live" documents and will be updated from time to time.

There are some key issues on both SIPs that that Members are asked to consider. These are set out on page 2 of Appendix 1 and relate to Risk Tolerance and Total Return Target, and Members are asked to provide feedback on the SIPs for City's Cash and City Fund on these key issues and the SIPs in general.

Recommendation(s)

Members are asked to:

(i) Note the progress to date.
(ii) Confirm the risk tolerance to be adopted by each fund as set out on page 2 of Appendix 1
(iii) Provide feedback on the two Statement of Investment Principles.

Appendices

- Appendix 1 – Stanhope's progress to date
- Appendix 2 – Draft SIP for City's Cash
- Appendix 3 – Draft SIP for City Fund

Caroline Al-Beyerty
Chamberlain

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Stanhope deliverables – progress to date

- Stanhope has been appointed to advise The City of London's in-house Corporate Treasury and Investment Property teams on the investment strategy and allocation between property and financial assets
- As part of this project, Stanhope also advises the Corporation on how to achieve the best rates of return for each fund
- The below deliverables have been agreed to achieved these goals

	Deliverable	Due date	Comment on status
1	Statement of Investment Principals	April 2023	Working document, initial draft on agenda today
2	Modelling	July 2023	Work started, further inputs from CoL required
3	Asset Allocation	Sept 2023	Work started, further inputs from CoL required
4	Implementation	Feb 2024	-
5	Sustainability/ESG support	Sept 2023	-
6	Metrics	Feb 2024	-
7	Ongoing partnership	Ongoing	-

Source: Work Order based on the Services of Delivery Agreement between Bloom Procurement Services Ltd and Stanhope Capital LLP, Sep. 2022.

Statement of Investment Principle – issues and key questions

There are number of key issues for the Statement of Investment Principles (SIP) for City Cash and City Fund require Member input.

It is important to bear in mind that the SIPs differ, reflecting the different financial frameworks for each fund.

1. Risk Tolerance

Are Members in agreement about the risk tolerance adopted by each fund:

- *City Cash (overall portfolio): while not formally defined, it has been set at 10-15% annual losses being acceptable in normal market circumstances*
- *City Fund (property only): while not formally defined, it has been set at 10-15% annual losses being acceptable in normal market circumstances*

2. Total return target

There has been some discussion about the target returns for each fund to reflect their different purposes

- *City Cash: CPI plus 4% per annum over a rolling five-year period*
- *City Fund: CPI plus 3% per annum over a rolling five-year period*

Proposed Statement to Investment Policy – City Cash

1. Purpose	To generate a sufficient return to support the activities of the City Corporation
2. Governance	Responsibility for the policy lies with the Finance and Policy & Resources Committees
3. Time horizon	Very long term, effectively perpetual
4. Return objectives	
Minimum requirement	Preservation of capital and income in real terms after inflation and distributions
Distribution policy	Total return approach allowing both capital and income to be distributed – currently only income is distributed
Total return target	CPI inflation plus 4% p.a.
5. Liquidity requirement	No need to hold a minimal level of cash in the underlying portfolios – cash for operating purposes held in Treasury balances
6. Risk tolerance	A relatively high degree of risk can be taken given the time horizon – no formal limits on volatility or downside
7. Gearing	Permitted to enhance returns and avoid forced sales of assets – current debt = £450 million
8. Responsible policy	In line with the Corporation's current Responsible Investment Policy
9. Sustainability	In line with the Corporation's existing commitments to sustainability

Proposed Statement to Investment Policy – City Cash (cont.)

10. Strategic asset allocation

To be decided – the table shows the current split between the property and financial portfolio

Strategic allocation	Target
Property Portfolio	66%
Financial Portfolio	34%
Total	**100%**

11. Property portfolio

Primary purpose is to produce a steady and growing level of income through active management; income is expected to grow at least in line with inflation

12. Financial portfolio

Total return objective = CPI inflation +4% p.a.; current strategic asset allocation is shown in the table below; investment is on a global basis to offset the UK focus of the property portfolio; no restricted asset classes

Strategic allocation (set in 2018/19)	Target
Bonds	10%
Listed equity	55%
Private equity	5%
Absolute return	25%
Infrastructure	5%
Total	**100%**

13. Review process

Annual review of policy by the Finance and Investment Committees

Proposed Statement to Investment Policy – City Fund

1.	*Purpose*	To generate a steady growing income to support the activities of the City Corporation as Local Authority
2.	*Governance*	Responsibility for the policy lies with the Finance and Policy & Resources Committees
3.	*Time horizon*	Very long term, effectively perpetual
4.	*General principles*	a) Service and commercial investments must follow CIPFA's Prudential Code b) To maintain the core of the portfolio for future generations, freeholds should not generally be sold c) The portfolio should be actively managed to increase capital values and potential income d) The portfolio should be managed in a way that takes account of the commitment to reduce carbon emissions
5.	*Return objectives*	
	Income target	Income should in normal circumstances grow at least in line with CPI inflation – there is no formal yield target but in normal circumstances the portfolio would be expected to yield around 3%
	Total return target	CPI inflation + 3% p.a. over 5 year rolling period
6.	*Liquidity requirement*	No need to hold cash in the underlying portfolios as cash for operating purposes is held in Treasury balances
7.	*Risk tolerance*	Preservation of capital is an important consideration under the Prudential Code. A relatively high degree of volatility is acceptable given the time horizon – stability of income is more important
8.	*Sustainability*	In line with the Corporation's existing commitments to sustainability
9.	*Responsible policy*	In line with the Corporation's current Responsible Investment Policy
10.	*Review process*	Annual review by the Finance and Investment Committees

Modelling and asset allocation – Summary

- **Objectives**
  - Appropriate long-term strategic split in City Cash between the property and financial portfolios
  - Best way of financing the capital development projects in City Cash and City Fund
  - Identification of areas for diversification within the portfolios are number of key issues for the Statement of Investment Principles (SIP) for City Cash and City Fund require Member input.

- **Key inputs**
  - City Corporation's Property Team = income forecasts and review of properties (potential sales) – currently being refined
  - Mercer = asset allocation within the financial portfolio
  - Stanhope = market risk and return forecasts

- **Initial modelling – City Cash**
  - The risk/return balance within City Cash could be improved by shifting assets towards the financial portfolio – assuming no major change in property yields or major one-off development gains
  - The shift will naturally occur if the property portfolio is used to finance capital projects
  - The room to boost returns is likely to be limited – without increasing exposure to private equity
  - There is no need to rush property sales given the liquidity provided by the financial portfolio

Legal and regulatory information – legal disclaimer

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France

The amount that is reasonable to invest depends on the personal circumstances of the Investor. To determine this, the Investor must consider his personal and family situation, his personal assets, his current and future needs, but also his aversion to risk. It is also strongly recommended to sufficiently diversify your investments in order to reduce the risks. Investors should inquire about this with their usual advisers (legal, tax or accounting) before any investment.

The different risk profiles can be adapted according to the allocation ranges by asset class agreed in the investment objectives defined with the client.

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City of London Corporation - City's Cash

Statement of Investment Policy Outline Draft v5 22.6.23

1. Background

City's Cash is a fund of the City of London Corporation (the City Corporation) that can be traced back to the 15th Century which has been built up over time into a substantial investment portfolio. It is not a legal entity. Its purpose is, firstly, to provide a return that enables the City Corporation to provide services that are of importance to the City and Greater London as well as nationally and internationally and, secondly, to maintain the value of the capital in the portfolio so that income will be available to fund services for the benefit of future generations.

2. Governance

The responsibility for setting the objectives and policy for the City's Cash investment portfolio lies with the City Corporation's Finance Committee and Policy & Resources which is are up of Members of Court of Aldermen and Court of Common Council and advised by the City Corporation's executive team.

The City's Cash investment portfolio is formally divided into two separate sub-portfolios: a Property Portfolio managed internally by the City Corporation's property management team and a Financial Portfolio managed externally by a number of leading investment houses with the advice of an independent investment consultant.

The Finance Committee is advised by the Resources Allocation Sub-Committee on the appropriate split between the Property and Financial Portfolio, while the implementation of the policy in the two underlying portfolios is the responsibility of the Investment Committee. The Resource Allocation Sub-Committee is advised by the Investment Committee on the appropriate allocation between property and non-property assets.

The Investment Committee reports to the Court of Common Council in relation to its activities and overall performance and recommends any necessary changes to investment objectives to the Finance Committee.

All three committees are made up of Members of the Court of Aldermen and Court of Common Council.

See appendix for details of the governance structure and the terms of reference for the various committees.

3. Time horizon

The time horizon for the investment portfolio is very long term, effectively perpetual.

The very long-term time horizon allows for a bias in the investment portfolio towards higher risk, higher returning asset classes likely to generate the strongest growth in real terms after inflation over the long term, such as equities and property. This time horizon also means that the City Corporation can accommodate considerable short-term fluctuations in capital values in the investment portfolio as they should not have a detrimental impact on the long-term returns derived from the portfolio.

4. Return objectives

Minimum return requirement

Reflecting the need to fund services for future generations as well as the current generation, the minimum requirement for the investment portfolio is the preservation of capital and income in real terms after inflation and distributions.

The measure of inflation used in assessing returns is the long-term Consumer Price Index (CPI).

Distribution policy

Both capital and income can be distributed from the investment portfolio as the City Corporation has adopted a total return approach to distributions. In normal circumstances, however, only income is distributed from the portfolio.

Income largely comes from the Property Portfolio and is fully distributed. The current income yield on the property portfolio is around 3.5%. This is not a formal yield target for the portfolio but in normal circumstances the portfolio would be expected to yield at least this amount.

The majority of the financial assets are invested in pooled vehicles with the income being automatically reinvested.

Total return target

To preserve capital and income in real terms after inflation and distributions and allow for an element of growth in capital and income over the long term, the total return target for the investment portfolio on a combined basis including income has been set at CPI inflation +4% p.a.

5. Liquidity requirement

In normal circumstances, there is no need to hold a minimum level of cash or cash equivalents in the investment portfolio as sufficient cash for operating purposes is held elsewhere.

The very long-term nature of the portfolio allows for a substantial part of the overall portfolio to be invested in illiquid asset classes, such as property and private equity, but the bulk of the underlying holdings in the Financial Portfolio should be easily realisable to offset the illiquid nature of the Property Portfolio.

The City Corporation's large scale capital spending programme over the next five years will require sizeable drawdowns on the two underlying portfolios. These will be funded in a timely fashion from asset sales as necessary, with the proceeds from the sales held in cash and short dated bonds ahead of their drawdown.

6. Risk tolerance

The long-term time horizon for the investment portfolio allows for a relatively high degree of volatility and other forms of risk to be taken in the portfolio as it provides sufficient time for any short-term declines in capital values to be recovered.

To achieve the portfolio's real return target requires the bulk of the portfolio to be invested in asset classes which have a relatively high degree of volatility and other types of risk, and it is therefore necessary to accept a relatively high level of volatility and fluctuations in capital values.

Risk in the portfolio is, however, controlled by broad diversification across asset classes and within asset classes and as far as possible investment in financial instruments where there is limited risk of a permanent loss of capital.

The City Corporation's overall risk tolerance is not formally defined in terms of the volatility of returns or maximum permitted downside risk to capital because the level of volatility in markets and therefore the potential downside risk changes over time but it is assumed that the maximum potential fall in the capital value of the investment portfolio in normal market conditions (defined as 98% of possible outcomes) will be in the range of 10-15%, albeit in times of crisis (the other 2% of possible outcomes) the downside risk to capital could be substantially larger.

7. Gearing

Gearing is permitted to enhance returns and avoid forced sales of assets at an inopportune moment to meet capital spending or other drawdown requirements. Currently, there is £450 million of debt outstanding within the portfolio.

In recognition that gearing adds to risk and potential volatility in returns on a net asset basis, the maximum permitted gearing ratio based on the combined net assets of the Property and Financial Portfolios has been set at 25%.

8. Responsible investment

The City of London Corporation (the Corporation) is committed to being a Responsible Investor and the long-term steward of the assets in which it invests. It expects this approach to protect and enhance the value of the assets over the long term.

The Corporation recognises it is consistent with its fiduciary duty to manage Environmental, Social and Corporate Governance ('ESG') issues that may be financially material. The Corporation's approach to Responsible Investment (RI) and details of the actions the Corporation and its external providers take on behalf of its stakeholders to protect the Corporation and its assets from ESG and reputational risks is set out in its Responsible Investment policy which can be found **here**.

Among the key elements of the policy, the City Corporation:

- is a supporter of the Principles of Responsible Investment (PRI), a UN-supported network of investors working to promote sustainable investment through the incorporation of environmental, social and governance factors;
- aims to exercise its voting rights in all markets with its investment managers required to vote at all company meetings or give the Corporation notice when is not practical to do so;
- looks to actively manage a downward trajectory path on the carbon emissions from the portfolio, with progress of carbon reductions, Paris alignment and PRI agreements regularly monitored;
- follows a Green and Sustainable Financing Framework – The City of London Financing Framework – which provides a financing framework for the City's Cash fund that targets five environmental objectives and the related eligible project categories highlighted by the ICMA's Green Bond and establishes a framework for the selection of project categories that may be eligible for financing;
- expects its external investment advisors and investment managers, to be signatories and demonstrate commitment to the PRI and any disclosure requirements in the jurisdictions in which they are regulated;

- seeks to work with and support the initiatives of other bodies with similar goals, including via its investment managers and investment advisor;
- recognises that transparency and disclosure is an important aspect of being a responsible investor and expects transparency and disclosure from its investment managers, including reporting on engagement progress and success on climate related financial risk;
- believes in active ownership in helping to realise long-term shareholder value and exercises its stewardship, active ownership responsibilities and status as a long-term investor to encourage responsible investment behaviour; and
- recognises that Climate Change presents a systemic and material risk. The City Corporation is committed to aligning our approach with the objectives of the Paris Agreement for a below 2 degrees world. It works with managers, partners and networks who are seeking to do the same.

9. Sustainability

As noted above, the City Corporation as an organisation recognises the threat to society posed by climate change and has developed a comprehensive plan to reduce its carbon emissions across its various activities, including its investment portfolios.

Formal targets for achieving net zero carbon emissions have been set for both the Property and Financial Portfolios taking into account their different characteristics:

- in the Property Portfolio, the internal management team are expected to have obtained EPC B ratings for directly managed properties in the portfolio by 2030 and achieved net zero carbon emissions across the whole of the investment portfolio by 2040.
- in the financial portfolio, the external managers of the underlying funds are expected to reduce the aggregate sum of carbon emissions from the underlying companies in their portfolios by 24% by 2025, 55% by 2030 and 100% by 2040 from a baseline in 2021.

The external managers of the Financial Portfolio are also expected to engage with the underlying companies in their portfolios on their transition plans to accelerate the decarbonisation process and to invest where possible in areas providing solutions to the problems posed by climate change.

See appendix for details of carbon targets and monitoring in the Property and Financial Portfolios.

10. Strategic asset allocation

The appropriate balance between property and financial assets is considered critical to achieving the long-term real return objective for the investment portfolio, while limiting risk to an acceptable level, and the appropriate strategic asset allocation between the Property and Financial Portfolios is reviewed regularly.

The table below shows the current recommended split between property and financial assets and the permitted ranges. The ranges reflect the difference in the expected return and volatility of the two underlying portfolios.

Strategic allocation	Target	Permitted Range
Property Portfolio	66%	60-70%
Financial Portfolio	34%	20-40%
Total	**100%**	**--**

11. Property Portfolio

The primary purpose of the Property Portfolio is to generate a steady and growing level of income through active management of the underlying assets in the portfolio. In normal circumstances, income is expected to grow at least in line with inflation. This is the portfolio's first formal objective.

Over the long term, however, the growth in income should feed through into an increase in capital values and the portfolio would be expected to achieve a total real return after inflation of at least 4% p.a. over rolling five-year periods. This is the portfolio's second formal objective.

As the underlying properties are largely in the City and Greater London region, the portfolio is also expected to outperform the MSCI Greater London Property Index over five-year rolling periods. This is the portfolio's third formal objective.

12. Financial Portfolio

The formal long-term real return objective for the Financial Portfolio is to generate a total return above CPI inflation +4% p.a. over rolling three- and five-year periods.

To achieve this without taking excessive risk, the portfolio is managed in line with the strategic asset allocation shown in the table below.

Strategic allocation	Target	Permitted ranges
Bonds	10%	
Total bonds	**10%**	
UK equities	15%	
Global equities	40%	
Listed equities	55%	
Private equity	5%	
Total equity	**60%**	
Absolute return	25%	
Infrastructure	5%	
Total alternatives	**30%**	
Total	**100%**	

To assess how it is performing over shorter-term periods, the performance of the Financial Portfolio is monitored against a weighted composite benchmark based on the strategic asset allocation, while the underlying external managers in each asset class are expected to outperform the specific benchmarks they have been set.

See appendix for benchmark details.

Geographic and currency exposure

The Financial Portfolio is invested on a global basis to provide broad diversification of country risk and offset the UK focus of the Property Portfolio.

There are no formal limits set on non-sterling currency exposure in the Financial Portfolio because the currency risk within the combined portfolio is offset by the sterling assets in the Property Portfolio and it is sensible to have some exposure to non-sterling currencies for diversification.

A sizeable allocation is, however, maintained in UK equities to limit the extent of the non-sterling currency exposure.

In normal circumstances, any non-sterling fixed interest investments are hedged back into sterling given the role of bonds in a portfolio is to dampen volatility and the additional volatility that can created be by currency movements is clearly undesired in this area.

Restricted asset classes

There are no formal restrictions on investment in particular asset classes in the Financial Portfolio other than investment in property.

13. Review process

This Statement of Investment Policy is formally reviewed by the Investment Committee and Finance Committee on an annual basis.

City of London Corporation - City Fund

Statement of Investment Policy Outline Draft v5 23.6.23

1. Background

The City Fund covers the activities of the City of London Corporation (the City Corporation) as a local authority, police authority and port health authority. It receives grants from central government, a share of business rate income and the proceeds of the local council tax. It also generates rental income through its investment portfolio and interest income separately through its treasury management activities, which have their own set of guidelines. Over time, the City Fund has built up a substantial portfolio of investment properties in the City and adjoining areas.

2. Governance

The responsibility for setting the objectives and policy for the City Fund's investment portfolio lies with the City Corporation's Finance Committee and Policy & Resources Committee which are made up of Members of Court of Aldermen and Court of Common Council advised by the City Corporation's executive team.

The City Fund investment portfolio is wholly invested in property and can only be invested in property. It is managed by the City's internal property management team.

The City Corporation's Investment Committee is responsible for implementing the portfolio's investment policy and reports to the Court of Common Council in relation to its activities and overall performance in respect of the property portfolio.

See appendix for details of the governance structure and terms of reference of the various committees.

3. Time horizon

The time horizon for the investment portfolio is very long term, effectively perpetual.

The long-term time horizon allows for investment in a potentially higher returning but illiquid asset class such as property despite the risk of fluctuations in capital values. The time horizon means the City Corporation can accommodate sizeable short-term fluctuations in capital values as they should not have a detrimental impact on long-term returns.

4. General principles

There are a number of general principles governing the management of the City Fund's investment portfolio.

- Firstly, services and commercial investments must follow CIPFA's Prudential Code. The main requirements are:

  a) *The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e., that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;*

  b) *An authority must not borrow to invest for the primary purpose of commercial return;*

  c) *It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;*

d) *An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;*

e) *A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.*

- Secondly, in order to maintain the core of the portfolio in the interest of future generations, freehold investments within the City itself should not generally be sold.
- Thirdly, the portfolio should be managed actively to increase capital values over time and therefore the potential income generated by the portfolio for the use of current and future generations.
- Finally, reflecting risks posed by climate change, the portfolio should be managed in a way that takes account of the City Corporations' commitment to reducing carbon emissions across its activities.

5. Return objectives

The investment portfolio's primary purpose is to support the City Corporation in its role as local authority through the generation of income.

Capital can also be distributed from the portfolio but only if it is invested in other capital projects: it cannot be used to support day-to-day services or fund the City Corporation's operating costs.

Income target

The investment portfolio should generate a steady and growing level of income through active management of the underlying assets in the portfolio. In normal circumstances, income is expected to grow at least in line with inflation as measured by the long-term Consumer Price Index (CPI).

The current income yield on the investment portfolio is around 3%. This is not a formal yield target for the portfolio but in normal circumstances, the portfolio would be expected to yield at least this amount.

Total return target

To preserve capital and income in real terms after inflation and the distribution of income, the total return target for the investment portfolio including income has been set at CPI inflation +3% p.a. over five year rolling periods.

Relative return objective

As the underlying properties in the investment portfolio are largely in the City and Greater London region, the portfolio is also expected to outperform the MSCI Greater London Property Index over five year rolling periods.

6. Liquidity requirement

In normal circumstances, there is no need to hold a minimum level of cash or cash equivalents in the investment property portfolio as sufficient cash for operating purposes is held in Treasury balances.

The City Corporation's large scale capital spending programme over the next five years will likely require sizeable drawdowns on the portfolio. These will be funded in a timely fashion from asset sales as necessary, with the proceeds from the sales held in cash and short dated bonds ahead of their drawdown.

Treasury Management (including Borrowing)

Each year the City is required to publish a "Treasury Management Strategy Statement and Annual Investment Strategy Statement relating to Treasury Management" (TMSS), which is approved by the Court of Common Council.

This document covers the Treasury activities for the local authority (City Fund) and includes capital expenditure plans and associated prudential indicators, the minimum revenue provision (MRP), the borrowing strategy and creditworthiness policy. It includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the Corporation's capital investment plans are affordable, prudent, sustainable and help the organisation identify and control the risks around its treasury management activity.

Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year (the MRP) and currently the City Fund is not in a position to borrow.

7. Risk tolerance

The long-term time horizon for the investment portfolio allows for a relatively high degree of volatility in terms of total returns as it provides sufficient time for any short-term declines in capital values to be recovered. Over short-term periods, the stability of income is more important than stability in capital values.

In normal circumstances, given the nature of property investments, it would be expected that volatility in terms of total returns would relatively low (higher than government bonds but substantially below equity market volatility).

It is accepted that the focus of the portfolio on the City and bias towards the office sector brings with it a high degree of specific risk which may mean that the portfolio underperforms the broader commercial property market in the UK significantly at times. Over time, it is expected that this risk will be reduced through diversification.

The City Corporation's overall risk tolerance is not formally defined in terms of the volatility of returns or maximum permitted downside risk to capital because the level of volatility in markets and therefore the potential downside risk changes over time but it is assumed that the maximum potential fall in the capital value of the investment portfolio in normal market conditions (defined as 98% of possible outcomes) will be in the range 10-15%, albeit in times of crisis (the other 2% of possible outcomes) the downside risk to capital could be substantially larger.

8. Sustainability

The City Corporation as an organisation recognises the threat to society posed by climate change and has developed a comprehensive plan to reduce its carbon emissions across its various activities, including its investment portfolios.

Formal targets for achieving net zero carbon emissions have been set for the City Fund's investment portfolio taking into account the characteristics of its underlying investments. The internal management team are expected to obtain minimum EPC B ratings for the directly managed properties in the portfolio by 2030 and achieve net zero carbon emissions across the whole of the investment portfolio by 2040.

More generally, the internal management team are also expected to take account of environmental, social and government (ESG) issues when assessing potential tenants and new investments for the portfolio.

The City Corporation also seeks to identify sustainable investment opportunities, where they are aligned with its broader objectives.

See appendix for details of carbon targets and monitoring in the investment portfolio.

9. Responsible investment

The City Corporation is committed to being a Responsible Investor and the long-term steward of the assets in which it invests. Its positive approach to responsible investment is enshrined in its Responsible Investment Policy, which can be found **here**.

Among the key elements of the policy, the City Corporation:

- ensures that its investments reach and exceed the standards set by United Nations supported Principles for Responsible Investment, by incorporating the six principles into investment analysis and decision-making processes;
- is committed to ensuring that modern slavery is not taking place in its business, jurisdiction or supply chains and is committed to using its wider influence to reduce modern slavery risks and impacts; and
- recognises that transparency and disclosure is an important aspect of being a responsible investor.

10. Review process

This Statement of Investment Policy is formally reviewed by the Investment Committee and the Finance Committee on an annual basis.

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

Agenda Item 15a

Document is Restricted

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Committee: Investment Committee	Dated: 7 July 2023
Subject: Performance Monitoring to 30 April 2023: City's Cash	**Non 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 Discussion/ Information**
Report author: Priya Nair – Senior Accountant: Financial Investments	

NOT FOR PUBLICATION

This report is exempt by virtue of the paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. Specifically, the report contains sensitive information which may be exempted under the Act, and as this cannot be presented to Members as a separate appendix this report needs to be considered in closed session. It is considered that information falling under the following paragraphs outweighs the public interest in disclosing information:	
3	Information relating to the financial or business affairs of any particular person or body (including the authority holding that information).

Summary

This report provides information on the investment performance of the City's Cash financial investment portfolio (the Fund) and of the various investment managers as of 30 April 2023.

The Fund has a blend of strategies to manage investment risk across the cycle. Managers are appointed for the long term and asked to be committed on their approach and style, whilst recognising that there will be periods of underperformance, particularly in unconducive short-term economic environments.

The Fund is measured against an absolute benchmark and a weighted asset allocation benchmark, whilst the individual fund managers are measured against their own benchmark.

The Fund generated a positive absolute return of +0.5% in the quarter, largely as equity markets returns were positive in January, reflective of the momentum of equity growth witnessed at the end of 2022, with falling energy prices and China's continued post-covid reopening. However, stubbornly high inflation and continued tightness in labour markets saw interest-rate expectations and recession fears increasing, with the result that most global equity markets fell in February. The subsequent market volatility caused by the

banking crisis in the US & Europe in March, had further adverse effects on equity portfolios, albeit overall equity growth remained robust during the quarter.

City's Cash is currently underperforming its absolute return target over all time horizons. The total return for the year to 30 April 2023 was +2.7%, which was below the variable absolute return target of 12.7% (an unusually high target owing to the marked increase in the consumer prices index). Against the asset allocation benchmark, the fund trails over all time periods.

Where investment managers have been appointed for at least three years, three (CQS, Wellington and M&G) are currently outperforming their benchmarks over the medium/long term. Five (Liontrust, Baillie Gifford, Veritas, Ruffer and Pyrford) are underperforming over three and five years, whilst Lindsell Train and C-Worldwide have outperformed over five years but trail over three years, and Artemis and Harris have outperformed over three years, but trail over five years.

The current actual asset allocation continues to be significantly overweight towards equities (70% vs. 55%) compared to the Fund's strategic target. Conversely, the Fund's investments in the other asset classes are currently underweight. 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 Medium Term Financial Plan (MTFP) process and the work of the external advisor around the overall asset allocation of City's Cash.

Recommendation

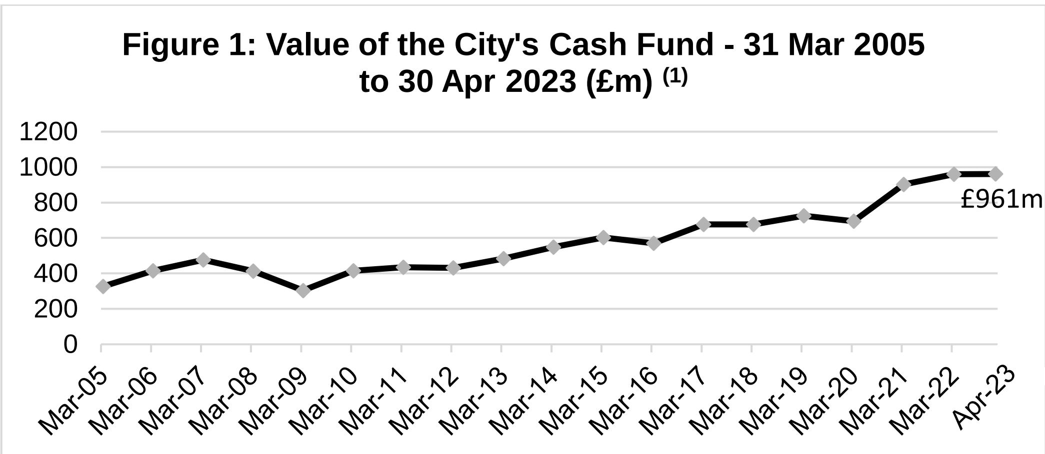
Members are asked to note this report.

Main Report

1. This report provides information on the value of the City's Cash investment portfolio (the Fund) and on the performance at portfolio level and of individual investment managers as of 30 April 2023.

VALUE OF THE FUND

2. The total value of the Fund on 30 April 2023 was £961m. The evolution of the Fund's value since 31 March 2005 is shown in figure 1.



[1] Only valuations since 31 March 2014 (inclusive) incorporate the private equity and close-ended infrastructure portfolio.

[2] Valuations for the private equity portfolio are calculated using the latest available market values (31/03/23, in most cases) and adjusted for cash flow and foreign exchange movements occurring during the period.

3. The Fund has increased in value by £38m in the four months since 31 December 2022, which was the last reported position to this committee (net of distributions – see paragraph 6 below).

ASSET ALLOCATION

4. The current asset allocation as at 30 April 2023 against the year-end position of 31 March 2023 and 31 December 2022 versus its strategic targets is shown in table 1.

5. The current actual asset allocation continues to be significantly overweight towards equities (70% vs. 55%) compared to the Fund's strategic target. Conversely, the Fund's investments in the other asset classes are currently underweight. 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 Medium Term Financial Plan (MTFP) process and the work of the external advisor around the overall asset allocation of City's Cash.

Table 1: Asset Allocation as of 30 April 2023 vs. Strategic Target

City's Cash	Position @ 31/12/2022 (Last reported)	Position @ 31/03/2023 (Year-end)	Position @ 30/04/2023 (Latest)		Strategic Target @ 2018/19	
	£M	£M	£M	%	£M	%
Equities	**635**	**669**	**677**	**70%**	**524**	**55%**
Artemis	74	77	79	8%	48	5%
Baillie Gifford	109	112	111	12%	95	10%
C WorldWide	137	143	144	15%	95	10%
Lindsell Train	44	46	48	5%	48	5%
Harris	109	118	118	12%	95	10%
Liontrust	36	38	39	4%	48	5%
Veritas	126	135	138	14%	95	10%
Multi-Asset	**176**	**175**	**174**	**18%**	**239**	**25%**
CQS	29	30	30	3%	72	8%
Pyrford	47	47	48	5%	72	8%
Ruffer	100	98	96	10%	95	10%
Alternative Credit	**37**	**38**	**38**	**4%**	**96**	**10%**
M&G	17	18	18	2%		
Wellington	20	20	20	2%		
Infrastructure	**50**	**50**	**50**	**5%**	**48**	**5%**
IFM	50	50	50	5%		
Private Equity[2]	**25**	**23**	**22**	**2%**	**48**	**5%**
TOTAL	**923**	**955**	**961**	**100%**	**955**	**100%**

6. The private equity portfolio generated net distributions of £2.3m during the four months to the end of April 2023 from its private equity allocations.

7. Appendix A shows the asset allocation on a "look-through" basis with the multi asset funds having been separated into equities, bonds etc. Appendix B provides more

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detailed information on the alternative asset classes (private equity funds) that City's Cash had outstanding commitments to, and existing investments in, as of 30 April 2023.

PERFORMANCE

8. The investment policy for City's Cash is to seek an absolute return over the long term to provide for real increases in annual expenditure whilst preserving the Fund's capital base in real terms.

9. The performance of the Fund (excluding private equity) is measured against an Absolute Return of CPI + 4% and the fund managers are measured against their own individual benchmarks. The performance of the Fund and fund managers is set out in Appendix C.

10. The overall performance of the Fund against its absolute return target and its asset allocation benchmark is shown in table 2.

Table 2: Overall Performance as of 30 April 2023

	Quarter	1 Year	3 Years	5 Years
Absolute Return				
Total Fund Return	0.5	2.7	9.8	7.0
Absolute Return Target (CPI + 4% p.a.)	4.1	12.7	10.4	8.4
Relative Return	(3.6)	(10.0)	(0.6)	(1.4)
Asset Allocation				
Total Fund Return	0.5	2.7	9.8	7.0
Asset Allocation Benchmark	1.2	5.8	12.1	8.2
Relative Return	(0.8)	(3.1)	(2.3)	(1.2)

11. The Fund has returned positively over all time horizons, albeit below its return target, and underperformed its asset allocation benchmark over all time horizons. The positive absolute return of 0.5% over the quarter to April 2023 reflects an improvement after the deterioration in financial market conditions characterised by the following factors:-

- Following a turbulent year, equity markets returns were positive in January, reflective of the momentum of equity growth witnessed at the end of 2022, with falling energy prices and China's continued post-covid reopening which encouraged investment back into equities; however.
- the turmoil caused by the banking crisis in the US and Europe in March resulted in a volatile market with adverse effects on equity portfolios;
- despite a fall in inflation, this was lower than expected, and interest rates continued on an upward trajectory with both the US Fed and the Bank of England increasing rates to tackle inflation; albeit.
- overall equity growth remained robust during the quarter.

12. Under these circumstances the Fund has benefitted from its allocation to UK and global equities. The Fund has underperformed its absolute return target over all time horizons and has underperformed its asset allocation benchmark over all time horizons.

MANAGER LEVEL PERFORMANCE

13. As at the end of April 2023, City's Cash held investments with thirteen different pooled fund managers (excluding the private equity managers).

14. Where investment managers have been appointed for at least three years, three (CQS, Wellington and M&G) are currently outperforming their benchmarks over the medium/long term. Five (Liontrust, Baillie Gifford, Veritas, Ruffer and Pyrford) are

underperforming over three and five years, whilst Lindsell Train and C-Worldwide have outperformed over five years but trail over three years, and Artemis and Harris have outperformed over three years, but trail over five years.

15. Of the Board's three appointed UK equity managers, **Lindsell Train** produced the strongest return of +5.9% over the quarter, the manager has returned positively over all time horizons, outperforming the FTSE All Share benchmark over the short and long term.

16. **Liontrust's** strategy produced a positive return of +2.6% over the quarter and is currently outperforming its FTSE All Share benchmark over the short term.

17. **Artemis** produced a positive return of +1.4% over the quarter; whilst the manager has returned positively over all time horizons, it is underperforming the FTSE All Share benchmark over all time horizons except the medium term.

18. Amongst the global equity mandates, **Veritas's** strategy of favouring companies with relatively high cash flows today operating in sectors with high barriers to entry performed strongly during the quarter with a return of +5.1% against the MSCI World's +0.3% (in sterling terms). Veritas trails the MSCI World benchmark over all time horizons except the quarter.

19. **C-WorldWide** which has a focus on companies with long term business models with above average growth potential produced a quarterly return of +1.4% against the MSCI AC World's -0.5%. The manager remains the Fund's best performing global equity manager over the long term with annualised gains of +10.9% over the past five years.

20. Value manager **Harris** produced a negative performance during the quarter with a return of -2.6% against the MSCI World benchmark of +0.3%. The manager is outperforming its benchmark over the short to medium.

21. **Baillie Gifford's** Global Alpha Growth strategy has been adversely impacted by changing market conditions, with an absolute return of -3.2% for the quarter and -1.2% for the year. The growth manager holds companies whose earnings are not necessarily high today, but which are expected to grow at faster-than-average rate and these stocks have been most vulnerable to increasing interest rates. This strategy is a long-term proposition which is expected to deliver superior returns to the benchmark over a rolling five-year period.

22. The muti asset allocation to **Pyrford** continue to underperform its benchmark over all time periods. Its benchmark of CPI+4% is extremely challenging in the current market and was set by the Financial Investment Board.

23. Sub-investment grade fixed income specialist **CQS** generated a negative absolute return of -0.5% in the quarter, and the manager trails its SONIA + 4% benchmark over the quarter and 1 year period, it has outperformed it over the three-year period.

24. **Ruffer** produced a negative absolute return of -2.8% over the quarter with UK inflation linked bonds and their exposure hedges such as credit protection contributing to this. The multi-asset specialist is currently underperforming its inflation plus 4% target over all periods. Whilst the multi-asset specialist is currently producing an annualised return of +6.7% over three years and +6.2% over five years, it is underperforming its inflation plus 4% target over all time periods. As with Pyrford, this target was set by the Financial Investment Board and is an unusually high owing to the marked increase in the Consumer Prices Index which was 8.7% as at 30 April 2023

25. The alternative credit managers, **Wellington** Bonds and **M&G** Alpha Opportunities, provided some further protection for the Portfolio. In particular, **Wellington** has out-

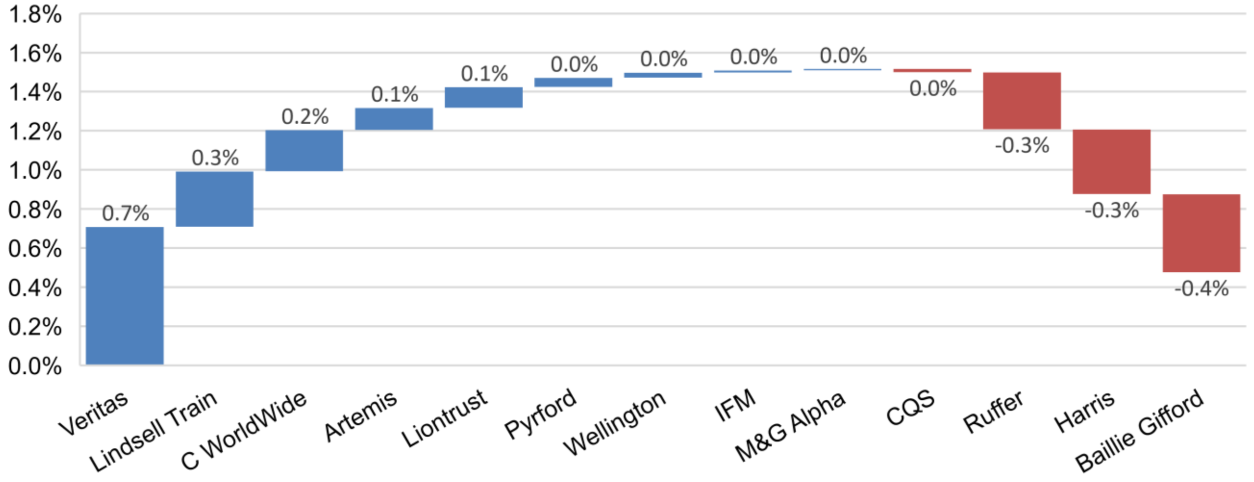
performed its cash benchmark over all time periods (except 1 year), whilst **M&G** has out-performed its cash benchmark over all time periods (except the quarter).

26. Whilst Infrastructure manager **IFM** has underperformed the CPI + 4% target over the quarter and the year, it has generated an absolute return of +11.1%. Many of the assets within IFM's Global Infrastructure Fund are underpinned by pricing mechanisms that are directly or indirectly linked to inflation, however, global fuel supply issues continue to present a challenging environment for IFM's midstream (i.e., energy infrastructure) investment as steep backward dated futures market for fuels have put downward pressure on storage utilisation, whilst pipeline throughput reflects lower than expected gasoline and distillate demand.

27. The managers' contribution to the overall quarterly performance is shown in figure 2. In an uncertain market environment, global equity manager Baillie Gifford was the largest detractor from the portfolio's overall quarterly return. Positive contributions principally came from global equities managers Veritas and C-Worldwide and UK equity managers Lindsell Train, Liontrust and Artemis.

28. The absolute and relative performance of the Fund's individual pooled fund managers over the last quarter is shown in Appendix C. Relative performance is measured against fund manager benchmarks. These benchmarks are used by the managers themselves to measure their performance except for the benchmarks for IFM and multi-asset managers Pyrford and Ruffer, and were set by the Financial Investment Board at CPI plus 4%.

Figure 2: City's Cash Quarterly Absolute Return Composition (February 2023 to April 2023)



FUND MANAGER FEES

29. The fees payable to the equity and multi asset managers in 2022/23 are set out in Appendix D. Where fees are based on the total market value of the City's investments across the Pension Fund, City's Cash and Bridge House Estates, the three Funds are amalgamated, and the fees apportioned to each Fund based on its market value.

CONCLUSION

30. The City appoints its managers for the long term and asks them to maintain conviction in their investment philosophy whilst recognising that there will be periods of under-

performance particularly in unconducive short-term economic environments. City's Cash financial investments increased in value over the four months to 30 April 2023.

31. The Fund generated a positive absolute return of +0.5% for the quarter, reflecting an improvement after stubbornly high inflation and continued tightness in labour markets which had resulted in increased interest rates. The subsequent market volatility caused by the banking crisis in the US & Europe in March had adverse effects on equity portfolios which had risen during the first week of February following the re-opening of the Chinese economy. Under these circumstances the Fund benefitted from its allocations to UK and global equities.

32. City's Cash is currently underperforming its absolute return target over all time horizons and has underperformed its asset allocation benchmark over all time horizons. Where investment managers have been appointed for at least three years, three (CQS, Wellington and M&G) are currently outperforming their benchmarks over the medium/long term. Five (Liontrust, Baillie Gifford, Veritas, Ruffer and Pyrford) are underperforming over three and five years, whilst Lindsell Train and C-Worldwide have outperformed over five years but trail over three years, and Artemis and Harris have outperformed over three years, but trail over five years.

Appendices

- Appendix A - Asset Allocation Incorporating Multi Asset Class as at 30 April 2023
- Appendix B - Alternative Assets Allocation as at 30 April 2023
- Appendix C - Fund Manager performance as at 30 April 2023
- Appendix D - Investment Management Fees

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Asset Allocation Incorporating Multi Asset Class as at 30 April 2023

	City's Cash	
	£M	**%**
Equities	710	74
Bonds & Gilts	126	13
Infrastructure	50	5
Private Equity	22	2
Other	53	6
	961	**100**

Notes:

(i) "Other" includes cash, derivatives etc.

Appendix B

CITY'S CASH ALTERNATIVE ASSET PORTFOLIO AS AT 30 APRIL 2023

Name	Category	Strategy	Fund Currency	Geography	Inception / Initial Investment	Commitment (i)	Unfunded Commitment (ii)	Contribution (iii)	Distribution	Latest Available Valuation	% Unfunded	Stale Unfunded Commitment	DPI (iv)	TVPI (v)	IRR % (vi)
Baring English Growth Fund	Fund	Growth	GBP	UK	2000	£ 1,049,998	£ 67,111	£ 982,887	£ 1,318,500	£ -	6%	£ 67,111	1.34	1.34	n/a
European Strategic Partners	Fund of Funds	Buy-out	EUROS	Europe	2000	£ 3,500,000	£ 102,842	£ 4,045,804	£ 6,738,540	£ 7,577	3%	£ 102,842	1.67	1.67	n/a
European Strategic Partners 2006	Fund of Funds	Buy-out	EUROS	Europe	2006	£ 3,500,000	£ 339,181	£ 3,910,654	£ 5,437,672	£ 434,049	10%	£ 339,181	1.39	1.50	6.0%
Chandos Fund	Fund	Growth	GBP	UK	2006	£ 1,750,000	£ -	£ 1,749,999	£ 1,924,658	£ 6,395	0%		1.10	1.10	n/a
Environmental Technologies Fund	Fund	Venture	GBP	UK	2006	£ 1,750,000	£ -	£ 1,728,459	£ 385,554	£ 21,490	0%	£ -	0.22	0.24	n/a
European Strategic Partners 2008	Fund	Buy-out	EUROS	Europe	2008	£ 6,475,000	£ 238,618	£ 6,712,992	£ 9,651,162	£ 847,808	4%	£ 238,618	1.44	1.56	9.1%
New Mountain Fund IV (viii)	Fund	Buy-out	USD	US	2014/15	£ 2,700,000	£ 346,136	£ 3,099,136	£ 4,520,397	£ 1,220,987	13%		1.46	1.85	21.6%
Crestview Partners III (ix)	Fund	Buy-out	USD	US	2014/15	£ 2,700,000	£ 1,082,443	£ 2,930,969	£ 1,375,681	£ 2,985,477	40%		0.47	1.49	14.0%
Exponent Private Equity Partners III (x)	Fund	Buy-out	GBP	Europe	2014/15	£ 2,700,000	£ 303,106	£ 2,913,212	£ 1,356,133	£ 4,212,170	11%		0.47	1.91	12.0%
Ares Special Situations Fund IV (xi)	Fund	Distressed Debt	USD	US	2014/15	£ 2,700,000	£ 159,071	£ 3,269,966	£ 1,612,356	£ 2,641,373	6%		0.49	1.30	7.7%
Frontier Fund IV (xii)	Fund	Growth	USD	US	2014/15	£ 2,700,000	£ 428,684	£ 3,468,964	£ 1,782,428	£ 2,383,573	16%		0.51	1.20	13.2%
Coller International Partners VII (xiii)	Fund of Funds	Secondaries	USD	Global	2014/15	£ 4,500,000	£ 1,701,100	£ 4,067,607	£ 2,624,713	£ 2,985,271	38%		0.65	1.38	17.0%
Warburg Pincus (xiv)	Fund	Buy-out/Growth	USD	Global	2015/16	£ 3,866,181	£ 63,815	£ 4,503,785	£ 3,121,410	£ 4,644,993	2%		0.69	1.72	21.8%
Private Equity						**£ 39,891,179**	**£ 4,832,106**	**£ 43,384,432**	**£ 41,849,203**	**£ 22,391,164**	**12%**	**£ 747,752**	**0.96**	**1.48**	

Net Unfunded Commitment (vii)	**£ 4,084,354**

Notes :

(i) Prior to 2014/15, private equity was split 37%, 35%, 28% between the Pension Fund, City's Cash and Bridge House Estates. All private equity transactions from 2014/15 onwards are split 40% for the Pension Fund and 30% each for City's Cash and Bridge House Estates.

(ii) Unfunded Commitment is calculated as total commitment less contributions to date, unless the fund currency is non-GBP, in which case this is calculated as the outstanding commitment disclosed by fund managers converted into GBP at the prevailing spot rate at the end of the reporting period.

(iii) In funds where CoL contributions exceed its commitments, this is as a result of fx exchange rate differences between those at the date of commitment and those at contribution date, and also where there has been a temporary return of costs under the terms and conditions of investment included as part of the CoL contribution amounts.

(iv) Distributed to Paid in (DPI) is the ratio of all distributions to date, relative to the total amount of capital paid into the fund to date

(v) Total Value to Paid-in Capital (TVPI) is the ratio of the current value of remaining investments, plus the total value of all distributions to date, relative to the total amount of capital paid into the fund to date

(vi) Internal rate of return (IRR) is the return earned by investors over the life of the investment calculated on the basis of cash flows. The information is on a net basis as at 30/06/2018. "N/a" indicates that the information is not maintained by the City

(vii) Net Unfunded Commitment is the balance of total commitment to the Investment which remains to be called, less those unfunded commitments to which the General Partner has deemed un-callable or 'stale'

(viii) On 5/2/2014 the FIB agreed to commit £9 million to New Mountain Fund IV. The investment will be made in US$ at the prevailing exchange rate at the date of the Board which was £1=US$1.6303 i.e., an investment of US$14,675,400.

(ix) On 22/5/2014 the FIB agreed to commit £9 million to Crestview Partners III. The investment will be made in US$ at the prevailing exchange rate at the date of the Board which was £1 = US$1.69 i.e., an investment of US$15.2 million.

(x) On 6/11/2014 the FIB agreed to commit £9M to Exponent Private Equity Partners III.

(xi) On 6/11/2014 the FIB agreed to commit £9M to Ares Special Situations Fund IV. The investment will be made in US$ at the prevailing exchange rate at the date of the Board which was £1=US$1.60 i.e., an investment of US$14.4 million.

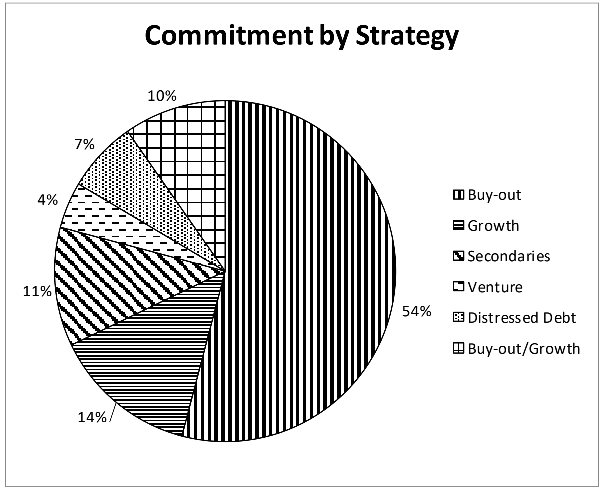
(xii) On 3/12/2014 the FIB agreed to commit £9M to Frontier Fund IV. The investment will be made in US$ at the prevailing exchange rate at the date of the Board meeting which was £1=US$1.56 i.e., an investment of US$14.1 million.

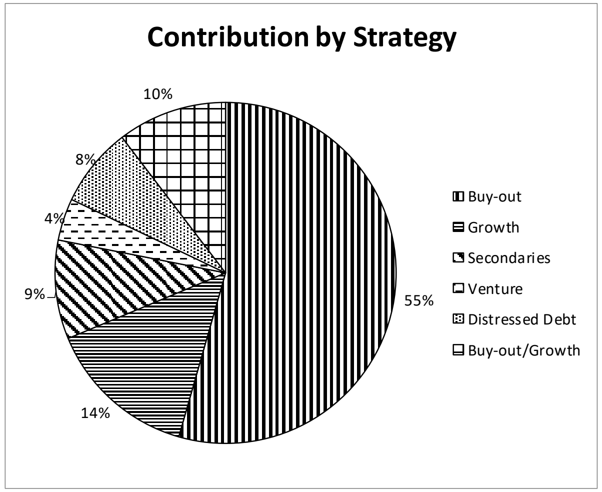
(xiii) On 3/12/2014 the FIB agreed to commit £9M to Coller International Partners VII. The investment will be made in US$ at the prevailing exchange rate at the date of the Board meeting which was £1=US$1.56 i.e., and investment of US$14.1 million.
On 27/05/2015, FIB agreed an additional commitment of £6M, giving a total of £15M. This additional investment will be made in US$ at the prevailing exchange rate at the date of the Board meeting which was £1=US$1.53. In total the investment is US$23.3M.

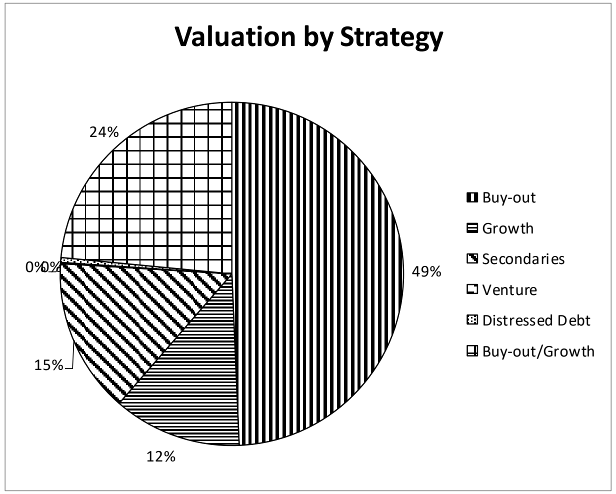
(xiv) On 09/09/2015 the FIB agreed to commit £15M to Warburg Pincus XII. The investment will be made in US$ at the prevailing exchange rate at the date of the Board meeting which was £1=US$1.54 i.e., an investment of US$23.046 million. At close, the Fund was oversubscribed, and the City's commitment was scaled back to US$19.8 million i.e., £12.9 million.

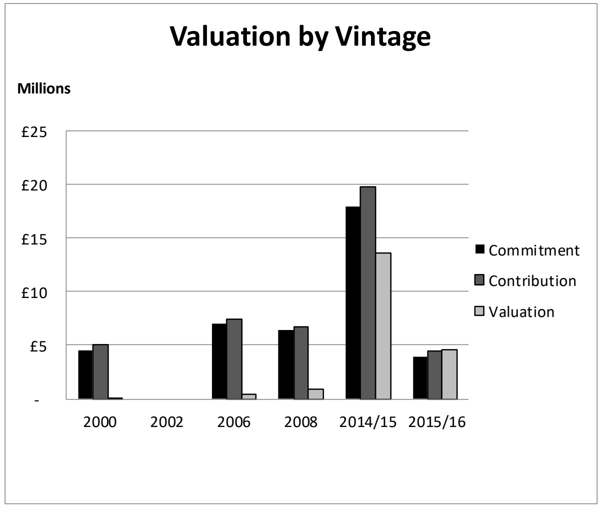
(xv) On 2/7/2015 FIB agreed to commit € 50 million to DIF Infrastructure IV Cooperatief UA. The investment in £ sterling is £35.48 million at an exchange rate of €1=£0.7096. Only the Pension Fund and Bridge House Estates are investing in infrastructure at 56.5% and 43.5% respectively.

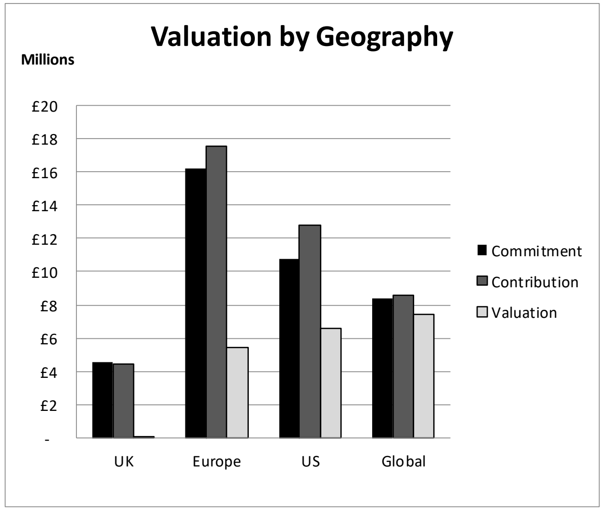
CITY'S CASH ALTERNATIVE ASSET PORTFOLIO AS AT 30 APRIL 2023

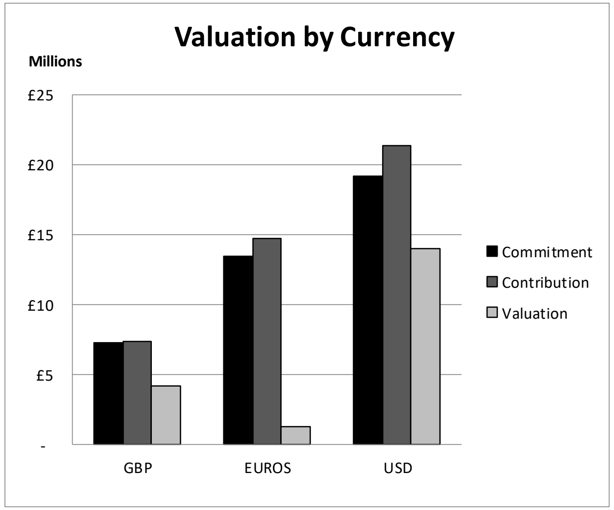






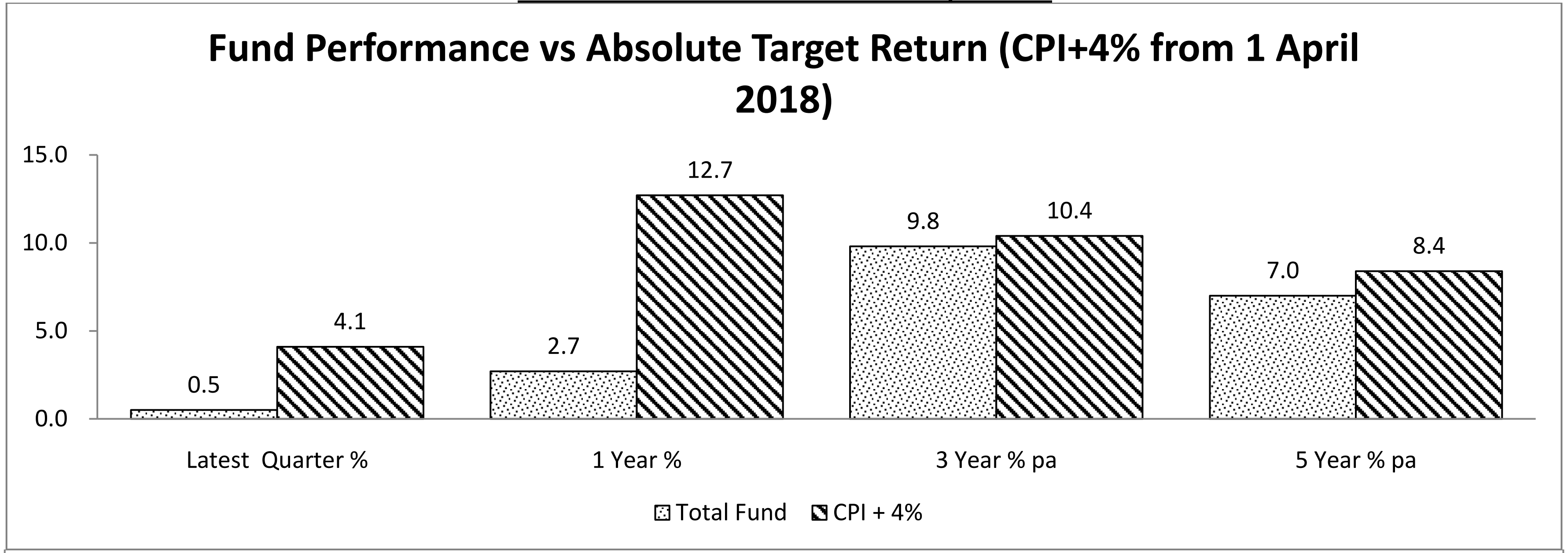


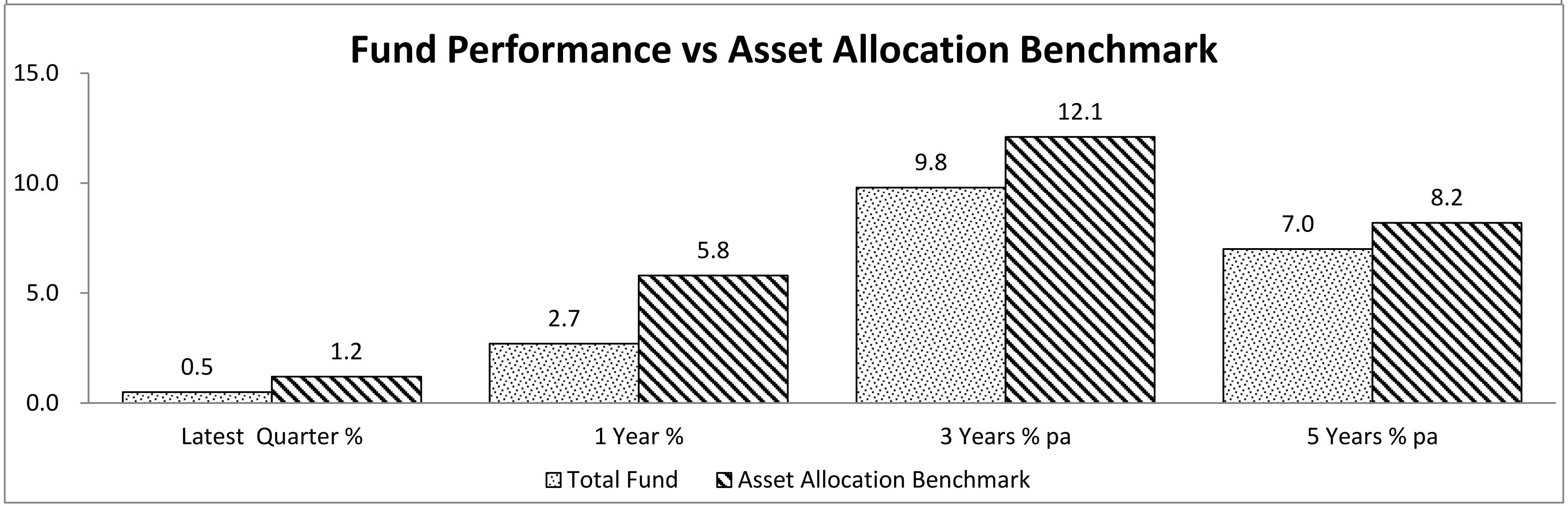




Appendix C

FUND PERFORMANCE - As at 30 April 2023





Individual manager performance (net of manager fees) as at 30 April 2023

	Manager	Quarter	1 Year	3 Years	5 Years
UK Equities	**Artemis**				
	Absolute	1.4	4.8	13.4	4.2
	Benchmark (FTSE All Share)	1.9	6.0	13.2	4.4
	Relative	(0.6)	(1.3)	0.1	(0.3)
	Lindsell Train				
	Absolute	5.9	9.6	8.3	6.4
	Benchmark (FTSE All Share)	1.9	6.0	13.2	4.4
	Relative	4.0	3.5	(4.9)	2.0
	Liontrust				
	Absolute	2.6	6.8	12.1	2.5
	Benchmark (FTSE All Share)	1.9	6.0	13.2	4.4
	Relative	0.7	0.7	(1.2)	(2.0)
Overseas Equities	**Baillie Gifford**				
	Absolute	(3.2)	(1.2)	6.7	
	Benchmark (MSCI AC World)	(0.5)	2.0	12.2	
	Relative	(2.7)	(3.1)	(5.5)	
	C-Worldwide				
	Absolute	1.4	2.9	10.7	10.9
	Benchmark (MSCI AC World)	(0.5)	2.0	12.2	9.0
	Relative	1.9	0.9	(1.5)	1.9
	Harris				
	Absolute	(2.6)	6.6	18.3	7.2
	Benchmark (MSCI World)	0.3	3.1	13.2	10.1
	Relative	(2.8)	3.6	5.0	(3.0)
	Veritas				
	Absolute	5.1	1.4	8.8	10.0
	Benchmark (MSCI World)	0.3	3.1	13.2	10.1
	Relative	4.8	(1.6)	(4.4)	(0.1)
Multi-asset	**CQS**				
	Absolute	(0.5)	(2.8)	5.6	
	Benchmark (SONIA + 4%)	2.0	6.6	5.0	
	Relative	(2.5)	(9.4)	0.6	
	Pyrford				
	Absolute	0.9	1.7	3.7	3.1
	Benchmark (CPI + 4%)	4.0	12.7	10.4	8.4
	Relative	(3.1)	(11.0)	(6.6)	(5.3)
	Ruffer				
	Absolute	(2.8)	(3.2)	6.7	6.2
	Benchmark (CPI + 4%)	4.0	12.7	10.4	8.4
	Relative	(6.8)	(15.9)	(3.6)	(2.1)

	Manager	Quarter	1 Year	3 Years	5 Years
Alternative Credit	**Wellington Bonds**				
	Absolute	1.3	1.5	2.2	2.7
	Benchmark (BofA ML 3M T-Bill Hedge)	0.9	2.1	0.6	0.6
	Relative	0.4	(0.6)	1.6	2.2
	M&G Alpha				
	Absolute	0.4	3.9	5.5	3.4
	Benchmark (SONIA)	1.0	2.5	0.9	0.8
	Relative	(0.6)	1.4	4.6	2.6
Infra	**IFM**				
	Absolute	0.2	11.1		
	Benchmark (CPI + 4%)	4.0	12.7		
	Relative	(3.8)	(1.6)		

Appendix D

Fund Manager Fees

Fund Manager	**Base Management Fee**	**Total Expense Ratio (TER) 2022/23**	**City's Cash 2022/23 £'000**
Artemis	50bps	53bps	420.8
Lindsell Train	55bps	59bps	234.1
Liontrust	61bps	61bps	209.2
Baillie Gifford	40bps	40bps	431.0
C WorldWide	8bps	12bps	111.4
	15% of out-performance above benchmark	-	-
Harris	57bps	57bps	460.3
Veritas	44bps	48bps	598.8
CQS	47bps	55bps	139.0
Pyrford	39bps	39bps	186.4
Ruffer	54bps	60bps	509.3
Wellington	36bps	51bps	39.0
	20% of out-performance above benchmark	-	160.6
M&G	50bps	50bps	87.1
TOTAL			**£3,587.0**

- In addition to the above City's Cash incurred fees totalling £1.44m in 2022/23 from private equity and infrastructure investments.

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Agenda Item 18

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Agenda Item 25

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