

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

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