City of London Corporation - City's Cash

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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 Global equities	15% 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.