

### 2020/21 Annual Investment Strategy Risk Parameters

The strategy includes parameters that aim to limit the Council's exposure to investment risks by requiring investments to be placed with high credit rated financial institutions and that those investments are diversified across a range of counterparties. More specifically the 2020/21 Strategy requires:

- Counterparties must be regulated by a Sovereign rated AA- (UK minimum of A-) or better as recognised by each of the three main rating agencies (Fitch, Moody's and Standard & Poor's).
- Whilst 100% of funds can be invested in the UK, exposure to non-UK banks is restricted to no more than 20% of funds per Sovereign.
- Exposure to individual counterparties and groups of related counterparty must not exceed 20% of funds.
- In selecting suitable counterparties the Council has adopted Link's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 1 year, 5 years, etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days. This broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (strong). A minimum of Fitch BBB (good), F2 (good) applies to UK nationalised banks.
- The duration of an investment in a foreign bank must not exceed Link's recommendation. For UK financial institutions Link's duration recommendation can be enhanced by up to six months subject to the combined duration (Link recommendation plus the enhancement) not exceeding 12 months. Where duration exceeds Link's recommendation by more than three months, the institution's CDS must be below average at the time the investment is placed and exposure in the extended duration (3 to 6 months) limited to 10% of investment balances.
- Money Market funds should be rated AAA and exposure limited to no more than 20% per fund. LNAV and VNAV funds may be used as a substitute for CNAV funds.
- Enhanced Cash Funds / Government Liquidity Funds / Gilt Funds should be rated AAA and exposure limited to no more than 10% per fund and 20% to all such funds.
- Exposure to each non-rated property fund used for long term investment is subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds. No limits applies to new resources made available from, or in anticipation of, the sale of existing property assets or other windfalls.

- Each non-rated diversified income (multi-asset) fund used for medium term investment is subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds.

All specified and non-specified Investments will be:

Subject to the sovereign, counterparty and group exposure limits identified above.

Subject to the duration limit suggested by Link (+6 months for UK financial institutions) at the time each investment is placed.

Subject to a maximum of 60% of funds being held in non-specified investments at any one time.

Sterling denominated.

**Specified Investments** (maturities up to 1 year):

<b>investment</b>	<b>Minimum Credit Criteria</b>
UK Debt Management Agency Deposit Facility	UK Sovereign A-
Term deposits - UK local authorities	UK Sovereign A-
Term deposits - UK nationalised banks	UK Sovereign A- Counterparty BBB, F2 or Green excluding CDS
Term deposits – all other banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 or Green excluding CDS
Certificates of deposit - UK nationalised banks	UK Sovereign A- Counterparty BBB, F2 or Green excluding CDS
Certificates of deposit – all other banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1, or Green excluding CDS
UK Treasury Bills	UK Sovereign A-
UK Government Gilts	UK Sovereign A-
Bonds issued by multi-lateral development banks	AAA
Sovereign bond issues (other than the UK govt)	AAA
Money Market Funds (CNAV, LVNAV or VNAV)	AAA
Enhanced Cash and Government Liquidity Funds	AAA

**Non-specified Investments** (maturities in excess of 1 year and any maturity if not included above):

Investment	Minimum Credit Criteria	Max duration to maturity
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Term deposits - local authorities	UK Sovereign A-	3 years
Term deposits - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Term deposits - banks, building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Certificates of deposit - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Certificates of deposit - banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Commercial paper - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Commercial paper - banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 (Green)	2 years
Floating rate notes issued by multilateral development banks	AAA	2 years
Bonds issued by multilateral development banks	AAA	2 years
Sovereign bonds (other than the UK Government)	AAA	2 years
UK Government Gilts	UK Sovereign A-	5 years
Property Funds	N/A	N/A
Diversified Income Funds	N/A	N/A