

## 2023/24 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 2023/24 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).
- Please note in setting the Annual Investment Strategy it was reported that the UK Sovereign debt rating had been removed pending a review from the three main rating agencies. In April 2023, and on completion of the review, the UK debt rating was placed on Stable Outlook. Therefore the minimum rating of A- has been reinstated as above.
- 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 or 10% of funds if a housing association.
- In selecting suitable counterparties for overnight deposits and deposits up to 2 years in duration (3 years with a local authority), 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 (based on credit ratings alone). Other than for UK nationalised institutions this broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (highest).
- Investment in UK nationalised banks is subject to the bank having a minimum long term credit rating of Fitch BBB (good) and a short term credit rating of Fitch F2 (good). The Royal Bank of Scotland and National Westminster Bank are currently rated Fitch A+, F1.
- The duration of an investment in a foreign bank must not exceed Link's post CDS recommendation. For UK financial institutions Link's duration recommendation can be enhanced by up to 6 months subject to the combined duration (Link recommendation plus the enhancement) not exceeding 12 months. The Council's Treasury Management Practices have been modified to ensure that where duration is being enhanced by more than 3 months the bank's CDS must be below the average for all other banks at the time the investment is placed.

- Money Market funds should be rated AAA and exposure limited to no more than 20% per fund. LVNAV (low volatility) or VNAV (variable net asset value) funds may be used as an alternative to CNAV (constant net asset value) funds.
- Enhanced Cash Funds and Government Liquidity Funds will be AAA rated and ultra-short duration bond funds rated AA or higher. Exposure is limited to no more than 10% of investment balances per fund and 20% to all such funds.
- Exposure to non-credit rated property funds is limited to a maximum of £3m per fund (no more than 20% of expected long term cash balances). No cash limit applies where invested funds are derived from or in anticipation of new resources e.g. proceeds from selling existing property assets or other windfalls.
- Exposure to non-credit rated diversified income (multi-asset) funds and or short dated bond funds is limited to a maximum of £3m per fund (no more than 20% of expected long term cash balances) across all such funds. No cash limit applies where invested funds are derived from or in anticipation of new resources e.g. proceeds from selling existing property assets or other windfalls.

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 / Government Liquidity / Ultra-Short Dated Bond Funds	AA

**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 – housing association	UK Sovereign A-	2 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 and or Short Dated Bond Funs	N/A	N/A