

Specified and Non Specified Investments

Specified Investments identified for use by the Council:

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

* Investments in these instruments will be on advice from the Council’s treasury advisor.

For credit rated counterparties, the minimum criteria will be the short-term / long-term ratings assigned by various agencies which may include Moody’s Investors Services, Standard & Poor’s, Fitch Ratings. The lowest rating of the 3 agencies will be used when making investment decision or including/removing counterparties from the Council’s lending list.

For 2011/12 the following Minimum ratings proposed are.

Term Deposits with Banks and Building Societies for periods up to 1 year

	Minimum long-term	Minimum short-term
Fitch	A+	F1
Moody's	A1	P-1
S&P	A+	A-1

However in making investment decisions the Council will not solely rely on credit ratings but will have regard to a range of information sources including:

- Central banks
- Government Departments,
- Debt Management Office
- Multilateral agencies
- Multilateral development banks
- Newspapers and periodicals
- Financial data providers eg Bloomberg
- Professional bodies and associations
- Annual reports of Banks and Building Societies
- Ratings agencies
- Bank and Building Society websites

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

The Council needs to maintain flexibility in its investment options if it is to be able to respond quickly to changing circumstances, and the above list continues to outline a number of investment instruments available for use in the coming year. The inclusion of such instruments on the list will afford the Director for Corporate Support, acting under delegated authority in accordance with the Constitution and in consultation with the Treasury Management Board the flexibility required to manage the investment portfolio on a day to day basis without the need to seek prior Council approval for changes. Inclusion of an instrument on the list does not mean that the Council will necessarily make use of these during the year.

Further details on the non-specified investments, and the associated risks are given below.

The proposed lending list for 2011/12, based on current circumstances is set out in Appendix D.

Appendix C

NON-SPECIFIED INVESTMENTS

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+	NO	In-house.	30%	5 Years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+	NO	To be used only after consultation/ advice from Arlingclose.	10%	5 Years

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<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
<p>Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year</p>	<p>(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity.</p> <p>(B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.</p>	No	No	<p>Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+ Lending limits varied depending on Credit Ratings Long Term AA-</p>	NO	In-house.	20%	5 Years

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Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating?	Capital Expenditure?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
UK government gilts with maturities in excess of 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	NO	Buy and hold to maturity: to be used only after consultation/ advice from Arlingclose.	20%	10 Years
Sovereign issues ex UK govt gilts : any maturity <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	AAA	NO	Buy and hold to maturity: to be used only after consultation/ advice from Arlingclose.		10 Years
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period	No	No	Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+	NO	In-house.		10%

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<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Deposits with unrated deposit takers with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	Credit standing of parent will determine ultimate extent of credit risk	No	Yes, but only if maturity is 1 year or less	Not rated in their own right, but parent must have minimum rating. Long Term AA- Short term F1+	NO	In-house.	25%	1 Year
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities in excess of 1year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA / government guaranteed	NO	Buy and hold to maturity: to be used only after consultation/ advice from Arlingclose.	10%	10 Years

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<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
<p>Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year</p> <p><i>Custodial arrangement required prior to purchase</i></p>	<p>(A) (i) Excellent credit quality. (ii) relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity).</p> <p>(B) (i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.</p>	Yes	Yes	AAA or government guaranteed	NO	Buy and hold to maturity: to be used only after consultation/ advice from Arlingclose.	10%	10 Years