

**TECHNICAL DETAILS IN RESPECT OF THE ANNUAL INVESTMENT
MANAGEMENT STRATEGY 2014/15**

BACKGROUND

1. The guidance on local government investments produced by the Department of Communities and Local Government, updated in March 2010, requires local authorities to produce an annual investment strategy. The guidance promotes prudent management of investments with security and liquidity as priorities, while not ignoring yield.
2. Investments held as part of the council's pension fund are managed under a separate regulatory framework and are outside the scope of this strategy.
3. The strategy is to be published on the council's website.

INVESTMENT OBJECTIVES

4. The council's investment objectives are to preserve principal, provide liquidity and secure a reasonable return.
5. The council holds cash in the normal course of its business and any cash not immediately used in spend should be invested until needed. Investments should be managed prudently and fall within two categories: specified investments and non-specified investments, as set out in government guidance. Specified investments are investments up to one year, as detailed below, with high liquidity and credit quality. Non-specified investments, as set out below, are investments that exceed one year and so potentially more responsive to liquidity, credit and market factors.
6. Prudent exposure to non-specified investments can help raise the level and sources of investment returns over the long term and may be considered, having regard to prevailing credit and market conditions. Investment exposure shall be diversified and be managed with due care and attention.
7. All investments should be denominated in GBP sterling, comply with credit standards and investment limits. Exposure to share capital that is treated as capital expenditure is outside the scope of this strategy.
8. The strategic director of finance and corporate services is responsible for this strategy and its management. Fund managers may be appointed to assist in advising or executing elements of the strategy. As at February 2014 the council's fund managers are: AllianceBernstein Ltd and Aberdeen Asset Managers Ltd.

SPECIFIED INVESTMENTS

9. Specified investments shall consist of investments with a remaining term of up to one year in the following categories. Actual exposure shall be subject to investment limits and managed prudently, having regard to prevailing credit and market conditions.

Specified investments - in sterling, meeting credit standards and with remaining life not longer than 1 year	
A	Term deposits, accounts, commercial paper, senior unsubordinated notes bills, bonds (including covered bonds) issued or guaranteed by the UK government, supranational banks, foreign governments, quasi-sovereigns or UK local authorities.
B	Term deposits, accounts, certificates of deposits, commercial paper, senior unsubordinated notes, bonds (including covered bond) issued or guaranteed by banks or UK building societies with no interest or principal conditionality.
C	Money market funds AAA/Aaa/AAA (Fitch/Moody's/S&P) rated with stable or variable net asset values.

NON-SPECIFIED INVESTMENTS

10. Non-specified investments shall consist of investments with a remaining term exceeding one year in the following categories of investments. Actual exposure shall be subject to investment limits and be managed prudently, having regard to prevailing credit and market conditions.

Non-specified Investments - in sterling, meeting credit standards and with remaining life longer than 1 year	
A	Bonds (including covered bonds) issued or guaranteed by the UK Government, supranational banks, foreign governments or quasi-sovereigns
B	Term deposits, certificates of deposits, senior unsubordinated notes, bonds (including covered bond) issued by banks or UK building societies, with no interest or principal conditionality.

CREDIT STANDARDS

11. Credit risk, the risk that an entity with whom investments are held fails to meet its obligations to investors, shall be contained and credit ratings consulted.
12. The minimum credit ratings required are set out in the tables and paragraphs below. Rating definitions are set out below. While these ratings indicate a low risk of default and are well above the minimum regarded as investment grade, they may not always keep up with developments in turbulent markets (and do not in any case represent investment recommendations). Therefore, in managing exposure, attention should also be paid to capital strength and developments in the financial and credit markets.

A) Sovereign rating (*)

Minimum long term sovereign rating from one of the three rating agencies		
Fitch Ratings	Moody's Investor Services	Standard & Poor's
AA-	Aa3	AA-

(*) Sovereign rating refers to the country the bank's principal parent or key regional subsidiary is operating within.

B) Support rating

Support rating for banks and UK building societies	
Rating agency	Minimum support rating
Fitch Ratings	2

C) Short and long term rating - in addition to sovereign and support rating

Issuer or issue rating, minimum from one of the three rating agencies		
Rating Agency	Minimum short term rating	Minimum long term rating
Fitch Ratings	F1	A
Moody's Investor Services	P-1	A2
Standard & Poor's	A-1	A

D) Money market fund rating

Money market fund rating (*)	
Rating agency	Minimum fund credit rating
Fitch Ratings	AAA
Moody's Investor Services	Aaa
Standard & Poor's	AAA

(*)The minimum value of a money market fund in which investment may be placed is £1,000m or £200m where a fund's holdings consist only of UK government issued or guaranteed debt.

E) Supranational banks, foreign sovereigns and quasi-sovereigns

Issuer or issue rating, minimum from one of the three rating agencies	
Rating agency	Minimum long term rating
Fitch Ratings	AAA
Moody's Investor Services	Aaa
Standard & Poor's	AAA

F) Covered bonds

Issue rating, minimum from one of the three rating agencies, subject to issuer meeting minimum sovereign, support and issuer rating	
Rating Agency	Minimum Rating
Fitch Ratings	AAA
Moody's Investor Services	Aaa
Standard & Poor's	AAA

13. Credit requirements shall not apply to investments issued or guaranteed by the UK Government, nationalised entities or UK local authorities. Local authorities are not usually rated, but the Local Government Act 2003 provides sanctions in the event that an authority fails to meet its liabilities to lenders.
14. Ratings shall be reviewed frequently and at least monthly. In the event of significant adverse rating changes, investments may be recalled prior to maturity where it would be prudent to do so.
15. The strategic director of finance and corporate services shall have discretion to vary minimum rating and limits in response to market developments and operational requirements where prudent to protect the council's interests.

INVESTMENT LIMITS

16. Investment exposure shall be subject to the following limits.

Investment limits, subject to overall constraints and minimum ratings		
	Issuer/Institution	Upper limits
A	UK government	100% of all investments up to 1 year, 50% of all investments between 1 and 10 years
B	Major supranational banks: European Investment Bank, European Bank for Reconstruction and Development, International Bank for Reconstruction and Development (the World Bank)	£40m per issuer and up to 10 years
C	Other supranational banks	£5m per issuer and up to 5 years
D	Foreign governments	£5m per issuer and up to 5 years
E	Quasi-sovereigns	£5m per issuer and up to 3 years
F	Banks with minimum long term rating AA-/AA3/AA- and short term rating F1+/P1/A-1+	£40m up to 1 year £20m up to 3 years
G	Banks with minimum long term rating A/A2/A and short term rating F1/P1/A-1	£40m up to 1 year
H	UK local authorities	£40m up to 1 year
I	Money market funds	£50m per fund
J	Royal Bank of Scotland & National Westminster Bank	£75m
K	Bank of New York Mellon (custodian to the council's fund managers)	£75m
L	Overall upper limit on specified investments: 100% of all investments with a minimum sum of £60m	
M	Overall upper limit on non-specified investments with the UK government, supranational banks, foreign governments or quasi-sovereigns: 50% of investments	

N	Overall upper limit on non-specified investments with banks or building societies (including covered bond): 20% of all investments
O	Overall maximum average maturity of investments: 3 years

RATING DEFINITIONS

17. Ratings are research based opinions of rating companies (Fitch Ratings, Moody's and Standard & Poor's) on the ability of an entity or security to meet financial commitments such as interest, preferred dividends and repayment of principal in accordance with their terms. Ratings do not constitute recommendations to buy, sell or hold any security, nor do they comment on the adequacy of market price, or the suitability of any security for a particular investor.

18. Fitch Long Term Rating

AAA	Highest credit quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events
AA	Very high credit quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

19. The Fitch Short Term Rating is a short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream, and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' obligation rating category.

F1	Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments
F3	Fair short-term credit quality.

20. Fitch Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so.

21. Moody's Long Term Rating

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium grade and are subject to low credit risk.

22. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

23. Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations.

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

24. Standard and Poor's (S&P) Long Term Rating

AAA	An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

25. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

26. Standard and Poor's (S&P) Short Term Rating

A-1	A short-term obligation rated A-1 is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.