

## THE ANNUAL INVESTMENT MANAGEMENT STRATEGY 2022-23

### BACKGROUND

1. The guidance on local government investments produced by the Ministry of Housing, Communities and Local Government (MHCLG) as updated in February 2018, requires that local authorities produce an annual investment strategy. The guidance promotes prudent management of investments with security and liquidity as priorities, while also considering 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. Investments held for service purposes or for commercial profit are considered within the capital strategy.

### INVESTMENT OBJECTIVES

4. The council's treasury 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 required for settling council liabilities 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 are potentially more responsive to liquidity, credit and market factors.
6. Prudent exposure to non-specified investments can help raise the overall level and diversification of investment returns over the long term and so should be considered as part of an investment strategy, having regard to prevailing credit and market conditions. Investment exposure shall be diversified and managed with due care and attention.
7. All investments will 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 governance is responsible for this strategy and its management. Fund managers may be appointed to assist in advising or executing elements of the strategy.

## 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, be managed prudently and have regard to prevailing credit and market conditions.

<b>Specified investments - in sterling, meeting credit standards and with remaining life not longer than 1 year</b>	
A	Term deposits, notice accounts, certificates of deposits, commercial paper, notes, collateral backed lending, bills, bonds (including covered bonds) issued or guaranteed by: the UK government, supranational banks, foreign governments, quasi-sovereigns, UK local authorities, banks or UK building societies.
B	Money market funds and short duration low volatility enhanced cash funds rated AAA/Aaa/AAA (Fitch/Moody's/S&P) 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, be managed prudently and have regard to prevailing credit and market conditions.

<b>Non-specified Investments - in sterling, meeting credit standards and with remaining life longer than 1 year</b>	
A	Term deposits, notice accounts, certificates of deposits, commercial paper, notes, collateral backed lending, bills, bonds (including covered bonds) issued or guaranteed by: the UK government, supranational banks, foreign governments, quasi-sovereigns, UK local authorities, banks or UK building societies, pooled multiasset income funds.

## CREDIT STANDARDS

11. Credit risk, the risk that an entity with which investments are held fails to meet its obligations to investors, shall be contained and credit ratings consulted.
12. The minimum credit ratings are set out in the tables and paragraphs 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. Therefore, in managing exposure, attention should also be paid to developments in the financial and credit markets. Rating definitions are set out below.

## Minimum Credit Rating Criteria

Minimum long term rating from one of the three rating agencies		
Fitch Ratings	Moody's Investor Services	Standard & Poor's
A-	A3	A-

13. Credit requirements shall not apply to investments issued or guaranteed by the UK Government, nationalised entities, UK local authorities, the council's clearing bank (RBS) or the cash manager custodian bank (BNY Mellon). 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 governance shall have discretion to vary minimum rating and limits in response to market developments, cash flow volatility or 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 (percent or amount of council investment portfolio)
A	UK National Government	No limit
B	UK Local Authorities	Up to 1 year £10m per issuer maximum 25% in total
C	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum rating AAA/Aaa/AAA	Up to 5.5 years 20% per issuer
D	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum rating AA-/Aa3/AA-	Up to 5.5 years 12.5% per issuer
E	Foreign sovereigns, supranational banks and quasi-sovereigns minimum rating A1-/A3/A-	Up to 1 year; 5% per issuer
F	Banks and building societies Minimum rating AAA/Aaa/AAA	Up to 5.5 years 20% per issuer
G	Banks and building societies minimum rating AA-/Aa3/AA-	Up to 3 years 12.5% per issuer

<b>Investment limits, subject to overall constraints and minimum ratings</b>		
	<b>Issuer/Institution</b>	<b>Upper limits (percent or amount of council investment portfolio)</b>
H	Banks and building societies long term rating A-/A3/A-	Up to 1 year; 5% per issuer
I	Other Corporate Entities long term rating AA-/Aa3/AA-	Up to 3 years 10% per issuer
J	Other Corporate Entities long term rating A-/A3/A	Up to 1 year; 5% per issuer
K	Money market funds above £1,000m in holdings	£50m per fund
L	Short duration low volatility enhanced cash funds	£10m per fund maximum 20% in total
M	Sterling government money market funds above £200m in holdings	£50m per fund
N	Multi asset income pooled fund	£10m in total
O	Royal Bank of Scotland (NatWest) and Bank of New York Mellon (custodian)	Up to 3 months £75m per issuer
Overall portfolio: maximum above 1 year maturity 65% maximum weighted average maturity 2.5 years (the maturity of floating rate instruments is treated as the next interest re-set date)		

## **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 Ratings are shown below

<b>AAA</b>	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
<b>AA</b>	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.

<b>A</b>	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 modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories.

20. The Fitch Short Term Ratings are shown below

<b>F1</b>	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.
<b>F2</b>	Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments
<b>F3</b>	Fair short-term credit quality.

21. Moody’s Long Term Ratings are shown below

<b>Aaa</b>	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
<b>Aa</b>	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
<b>A</b>	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 and are shown below.

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

<b>AAA</b>	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.
<b>AA</b>	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.
<b>A</b>	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 Ratings are shown below

<b>A-1</b>	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.
<b>A-2</b>	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.