APPENDIX A

ANNUAL INVESTMENT MANAGEMENT STRATEGY 2015/16

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 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. 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 should 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 December 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, certificates of deposits, commercial paper, senior unsubordinated notes, collateral backed lending, bills, bonds (including coved 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 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	Term deposits, accounts, certificates of deposits commercial paper, senior unsubordinated notes, collateral backed lending, bills, bonds (including coved bonds) issued or guaranteed by: the UK government, supranational banks, foreign governments, quasi-sovereigns, UK local authorities, banks or UK building societies.

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 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-

B) Short and long term rating
- in addition to sovereign 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	F2	A-
Moody's Investor Services	P-2	A3
Standard & Poor's	A-2	A-

C) Supranational banks, foreign sovereigns, quasi-sovereigns and covered bonds

Issuer or issue rating, minimum from one of the three rating agencies	
Rating agency	**Minimum long term rating**
Fitch Ratings	AA-
Moody's Investor Services	Aa3
Standard & Poor's	AA-

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, 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 government	100% of all investments up to 1 year; 50% of all investments between 1 and 5.5 years
B	Foreign sovereign and supranational banks, minimum long term rating AAA/Aaa/AAA	Up to 5.5 years; £30m per issuer on portfolios up to £150m and 20% on portfolios above £150m
C	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum long term rating AA-/Aa3/AA-	Up to 5.5 years; £15m per issuer on portfolios up to £150m and 10% on portfolios above £150m
D	Banks: long term rating A-/A3/A- and short term rating F2/P-2/A-2, subject to minimum long term sovereign rating AA-/Aa3/AA-	Total £30m per issuer including: £30m up to 1 year £10m up to 5.5 years in covered bonds
E	UK local authorities	£10m per issuer, up to 1 year.
F	Money market funds above £3,000m in holdings	£50m per fund on portfolios up to £150m and 25% per fund on portfolios above £200m
G	Short duration low volatility enhanced cash funds above £1000m in holdings	10% per fund
H	Sterling government money market funds above £200m in holdings	10% per fund

Investment limits, subject to overall constraints and minimum ratings		
	Issuer/Institution	**Upper limits (percent or amount of council investment portfolio)**
I	Royal Bank of Scotland (NatWest) and Bank of New York Mellon (custodian)	£75m per issuer and up to three months
J	Overall portfolio: maximum above 1 year maturity 50% maximum weighted average maturity 2 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 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 modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories.

20. The Fitch Short Term Rating

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.

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.