

LOCAL GOVERNMENT INVESTMENTS (England)**SPECIFIED INVESTMENTS**

All “Specified Investments” listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	NO	In-house and by external fund managers	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Refer to Annex A	NO	In-house and by external fund managers	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 1 year. <i>Custodial arrangement required prior to purchase</i>	No	Yes	Refer to Annex A	NO	to be used by fund managers; to be used in-house after consultation/ advice from Sector and	1 year
Gilts : with maturities up to 1 year <i>Custodial arrangement required prior to purchase</i>	No	Yes	Govt -backed	NO	by external fund manager(s) only subject to the guidelines and parameters agreed with them	1 year
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534) <i>These funds do not have any maturity date</i>	No	Yes	Minimum : AAA	NO	by external fund managers subject to the guidelines and parameters agreed with them	<i>the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements</i>

Annex B

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
<p>Gilt Funds and other Bond Funds (dependent on set-up structure) *** <i>These are open-end mutual funds investing predominantly in UK govt gilts and corporate bonds. These funds do not have any maturity date. The fund would hold highly liquid instruments and the Council's investment in these funds can be sold at any time.</i></p>	No	Yes	minimum rating AA-	No, <i>(ensure it is not a body corporate by virtue of its set up structure)</i>	to be used by external fund managers only subject to the guidelines and parameters agreed with them *Important : In the selection of a fund the manager will ensure that the fund is not a body corporate by virtue of its set up structure	Callable
<p>Treasury bills [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value] <i>Custodial arrangement required prior to purchase</i></p>	No	Yes	Govt-backed	NO	by external fund managers subject to the guidelines and parameters agreed with them	1 year
<p>Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities under 12 months <i>Custodial arrangement required prior to purchase</i></p>	No	Yes	Govt-backed	No	(1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector (2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	1 year
<p>Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities under 12 months <i>Custodial arrangement required prior to purchase</i></p>	No	Yes	AAA	No	(1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector (2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	1 year

***Open ended funds continually create new units (or shares) to accommodate new monies as they flow into the funds and trade at net asset value. (NAV).

LOCAL GOVERNMENT INVESTMENT (England)**NON-SPECIFIED INVESTMENTS**

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Capital Expen- diture?</u>	<u>Circumstance of use</u>	<u>Maximum Investment £m</u>	<u>Maximum maturity of 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	Refer to Annex A	NO	in-house and fund managers	£5.0m	4 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	No	Refer to Annex A	NO	to be used by fund managers; to be used in-house after consultation/ advice from Sector and	£5.0m	4 years
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (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.	No	No	Refer to Annex A	NO	to be used by fund managers; to be used in-house after consultation/ advice from Sector and	£5.0m	4 years in aggregate

Annex B

<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>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum Credit</u> <u>Rating?</u>	<u>Capital</u> <u>Expen-</u> <u>diture?</u>	<u>Circumstance of</u> <u>use</u>	<u>Maximum</u> <u>Investment</u> <u>£m</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
<p>UK government gilts 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) 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</p> <p>(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.</p>	No	Yes	Govt backed	NO	(1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector (2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	£5.0m	4 years
<p>Sovereign issues ex UK govt gilts : any maturity</p> <p><i>Custodial arrangement required prior to purchase</i></p>	<p>(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</p> <p>(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.</p>	No	Yes	AAA	NO	(1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector (2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	£5.0m	4 years

Annex B

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Capital Expenditure?</u>	<u>Circumstance of use</u>	<u>Maximum Investment £m</u>	<u>Maximum maturity of investment</u>
<p>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 1 year <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	No	AAA / government guaranteed	NO	(1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector (2) for trading : by external cash fund manager(s) only, subject to the guidelines and parameters agreed with them	£5.0m	4 years
<p>Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year <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	No	AAA or government guaranteed	NO	(1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector (2) for trading : by external cash fund manager(s) only, subject to the guidelines and parameters agreed with them	£5.0m	4 years