

Item: 5

Investments Sub-committee: 23 November 2023.

Temporary Loans.

Report by Head of Finance.

1. Purpose of Report

To advise of the status of the temporary loan portfolio as at 30 September 2023.

2. Recommendations

The Sub-committee is invited to note:

2.1.

The status of the temporary loan portfolio as at 30 September 2023, as detailed in section 3 of this report.

2.2.

That, for the period 1 April to 30 September 2023, the temporary loans portfolio made a return of £274,583.02 at an average interest rate of 4.68%.

The Sub-committee is invited to scrutinise:

2.3.

The temporary loans portfolio, detailed in sections 3 and 4 of this report, in order to obtain assurance that the Treasury Management Strategy is being adhered to by the Finance Service and the temporary loans portfolio is producing an acceptable rate of return.

3. Temporary Loan Portfolio

3.1.

The temporary loan portfolio as at 30 September 2023 totalled £18,450,536.99. Further details are provided in the Monthly Investment Analysis Review prepared by Link Asset Services, attached as Appendix 1 to this report.

3.2.

The following transactions have taken place since 30 September 2023:

- £1,600,000 recalled from BlackRock Institutional Sterling Liquidity Fund.
- £1,600,000 recalled from Insight Liquidity Fund.
- £1,700,000 recalled from Aberdeen Standard Investments Liquidity Fund.

- £4,400,000 withdrawn from the Bank of Scotland Treasury Call Account.
- £2,200,000 deposited to the Bank of Scotland Treasury Call Account.
- £3,500,000 invested with BlackRock Institutional Sterling Liquidity Fund, with an average net yield of 5.28%.
- £3,400,000 invested with Insight Liquidity Fund, with an average net yield of 5.29%.
- £3,600,000 invested with Aberdeen Standard Investments Liquidity Fund, with an average net yield of 5.29%.
- £5,000,000 borrowed from Westmorland & Furness Council for 6 months at a rate of 5.5%.
- £5,000,000 borrowed from Oxfordshire County Council for 12 months at a rate of 5.7%.
- £1,100,000 invested with Debt Management Account Deposit Facility for 1 day, with a net yield of 5.17%.
- £1,100,000 Debt Management Account Deposit Facility deposit matured.
- £3,800,000 invested with Debt Management Account Deposit Facility for 58 days, with a net yield of 5.21%.
- £1,000,000 United Kingdom Debt Management Office deposit matured.

3.3.

The value of the temporary loans stood at £24,547,064.35 as at 31 October 2023.

4. Rate of Return

4.1.

For the period 1 April to 30 September 2023, the temporary loans returned an average interest rate of 4.68%, which equates to a return of £274,583.02.

4.2.

By comparison, the equivalent 30-day Sterling Overnight Index Average of 5.02% is considered to be the target.

4.3.

With inflation quoted at 6.7% for September 2023 based on Consumer Price Index (8.9% Retail Price Index), the return on temporary loans equates to a relative loss in value of 2.0% in real terms.

4.4.

The Council is part of an Investment Portfolio Benchmarking Group overseen by its Treasury Advisers, Link Asset Services, and comprising seven other Scottish Local Authorities, as follows:

- Aberdeen City Council.
- Aberdeenshire Council.
- Angus Council.
- Clackmannanshire Council.
- Midlothian Council.
- Perth and Kinross Council.
- Highland Council.

4.5.

An extract from the analysis report for the benchmarking group as at 30 September 2023, attached as Appendix 2 to this report, indicates that the Council is performing ahead of the weighted average rate of return of both the benchmarking group and the Scottish Unitary Authorities.

5. Cash Balances

5.1.

The cash held in the temporary loans portfolio is for cashflow purposes and the key considerations are security of the funds, liquidity and then finally the rate of return.

5.2.

The Council operates a consolidated Loans Fund approach to manage its cash balances across all its Services. The main components of this include:

- The day-to-day flow of cash through the Council's bank accounts.
- The actual level of reserves and earmarked balances that the Council holds.
- The capital financing activities of the Council.

5.3.

Steps were taken to improve delivery of the capital programme in 2018, including programme oversight, development of a project management approach and an updated Capital Project Appraisal process, which sits in front of the capital programme. Much of these improvements have been impacted by delays in project delivery due to the COVID-19 pandemic, previous shortages of materials, delays in delivery of required components, delays in planning and procurement processes and shortage of staff resources within the Council to deliver the projects. Work to improve monitoring and reporting procedures also remains ongoing. However, in the current financial year, spend as at 30 September 2023 is only £5.419M against an approved annual budget of £45.160M.

5.4.

Action has been taken to top up cash balances to cashflow the monthly spend incurred by the Council on staff payroll and payment for all other costs incurred. This has been done through inter local authority borrowing of £10,000,000 in May 2023 for a 6-month period with repayment due in November 2023. This borrowing has been refinanced with further inter local authority borrowing of £10,000,000 in October 2023. The interest rates for the Public Works Loan Board remain high with the rates available through inter local authority borrowing being more favourable.

6. Corporate Governance

This report relates to the Council complying with its treasury management policies and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

7. Financial Implications

7.1.

The Treasury Policy Statement is being adhered to by the Finance Service and is producing an acceptable rate of return.

7.2.

The effective management and control of risk are prime objectives of the Council's treasury management activities, with priority given to security and liquidity when investing funds.

8. Legal Aspects

Section 69 of the Local Government (Scotland) Act 1973 empowers a local authority to lend and invest surplus funds on a temporary basis where it is calculated to facilitate or is conducive or incidental to the discharge of any of their functions.

9. Contact Officers

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10. Appendices

Appendix 1: Link Asset Services Monthly Investment Analysis Review for September 2023.

Appendix 2: Link Asset Services Investment Portfolio Benchmarking Analysis for September 2023.



Orkney Islands Council

Monthly Investment Analysis Review

September 2023

Monthly Economic Summary

General Economy

The UK Manufacturing PMI for September rose to 44.2, from 42.5, outpacing market predictions of a rise / fall to 43. The uptick hinted at a more gradual decline in manufacturing activity, with some respondents attributing it to customer destocking influencing their output. By contrast, the UK Services PMI contracted, registering 47.2 in September, down from the previous month's 49.5 and below market expectations of 49.2. As a result, the Composite PMI (which incorporates both sectors) dropped to 46.8 in September, down from August's 48.6 and below the market consensus of 48.7, a preliminary estimate showed. This marked the fastest reduction in private sector activity since the lockdown period in January 2021, driven by a continued contraction in manufacturing output and the steepest decline in service sector activity in 32 months. The UK Construction PMI also experienced a dip, declining from 51.7 in July to 50.8 in August. This result suggested a marginal increase in overall business activity, with growth in commercial and civil engineering segments offsetting a slump in house building.

The UK economy contracted by 0.5% m/m in July, the largest decline this year, reversing 0.5% growth in June. This result was weaker than market forecasts of a 0.2% decrease. Notably, the services sector played a role in this contraction, primarily due to a 3.4% decline in the human health activities industry, a result of NHS strikes leading to appointment and procedure cancellations. Elsewhere, the UK's trade deficit narrowed to £3.446 billion in July from £4.787 billion in June, driven by a 1.8% rise in exports and a 0.2% drop in imports, taking them to their lowest level since February 2022.

In the three months to July, the number of people employed in the UK fell by 207,000, exceeding market expectations of a 185,000 drop. This marked the sharpest decline in job creation since September 2020. As a result, the unemployment rate in the UK rose to 4.3% in three months to July, reaching its highest level since the third quarter of 2021. This suggests a potential cooling in the labour market after extensive monetary policy tightening by the Bank of England. Despite this, average weekly earnings (including bonuses) in the UK increased 8.5% y/y in the three months to July, registering their biggest increase in two years. However, this was mainly reflective of one-off bonus payments to NHS staff, so would come out of calculations in the coming months.

The annual consumer price measure of inflation in the UK eased to 6.7% in August from 6.8% in July, falling below market consensus of 7.0% and the Bank's own forecast. This marked the lowest inflation rate since February 2022, primarily due to a slowdown in food inflation and a decline in the cost of accommodation services. Against this backdrop, the Bank of England's Monetary Policy Committee (MPC) decided to hold Bank Rate at 5.25% during this month's meeting, marking the first pause in policy tightening in nearly two years. The central bank cited expectations of a significant decline in CPI inflation in the near term as one reason for the pause, while also noting that the latest employment figures, specifically the wages element, did not tally with other data it had reviewed. However, while pausing, the Committee also noted that it would embark on further tightening if required.

Retail sales in the UK partially recovered in August, rising by 0.4% m/m following a 1.1% decline in July. Mirroring this, the GfK Consumer Confidence index rose to -21 in September from -25 in August, posting its highest reading since January 2022, with the report's subcomponents suggesting growing optimism about the economy and easing pressures on household spending.

Public sector net borrowing excluding public sector banks (PSNB ex) reached £11.6 billion in August, £3.5 billion more than in August 2022 and the fourth-highest August borrowing since records began in 1993. Borrowing in the financial year to August was £69.6 billion, £19.3 billion more than in the same five-month period last year - but £11.4 billion less than the £81.0 billion forecast by the Office for Budget Responsibility.

The US economy created 187,000 jobs in August, marking the third consecutive month with job gains below the 200,000 threshold. This provided further evidence of a gradual easing of labour market conditions largely attributed to the Federal Reserve's interest rate rises aimed at lowering inflation. According to its preferred measure of inflation, Personal Consumption Expenditure index, prices rose by 3.5% y/y in August after an upwardly revised 3.4% rise in July, matching market forecasts. Meanwhile, the US economy grew at an annualised rate of 2.1% in the second quarter of 2023, unchanged from the previous estimate, and compared to an upwardly revised 2.2% growth in the first quarter. Against this backdrop, the Federal Reserve kept the target range for the Federal Funds Rate at a 22-year high of 5.25%-5.5% at its September meeting but signalled there could be another rate rise later this year.

In the Euro Area, the inflation rate fell to 4.3% y/y in September compared to 5.2% in August, reaching its lowest level since October 2021 and falling below the market consensus of 4.5%, a preliminary estimate showed. GDP, meanwhile, expanded a meagre 0.1% q/q in the three months to June, revised lower from initial estimates of a 0.3% gain. With inflation starting to decline but remaining above the central bank's 2% target, the ECB raised rates for the 10th consecutive time at its September meeting but signalled that it could be minded to a pause in further tightening.

Housing

House prices in the UK continued to decline in August, with the Nationwide House Price Index falling by 5.3% y/y, registering its largest drop since July 2009. By comparison, the Halifax House Price Index fell by 4.6% y/y.

Currency

The MPC's decision to hold Bank Rate at 5.25%, which surprised some investors looking for a rate rise, saw Sterling fall against both the Dollar and the Euro over the month and reflected a more hawkish tone to policymakers' outlooks outside the UK.

September	Start	End	High	Low
GBP/USD	\$1.2620	\$1.2206	\$1.2620	\$1.2135
GBP/EUR	€1.1677	€1.1528	€1.1724	€1.1498

Forecast

In the wake of the MPC's decision to leave Bank Rate at 5.25%, both Link Group and Capital Economics revised their forecasts and now believe that 5.25% (rather than 5.5%) will be the peak in Bank Rate for this cycle.

Bank Rate	Now	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Link Group	5.25%	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	2.75%	2.75%	2.75%	2.75%	2.75%
Capital Economics	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	-	-	-	-

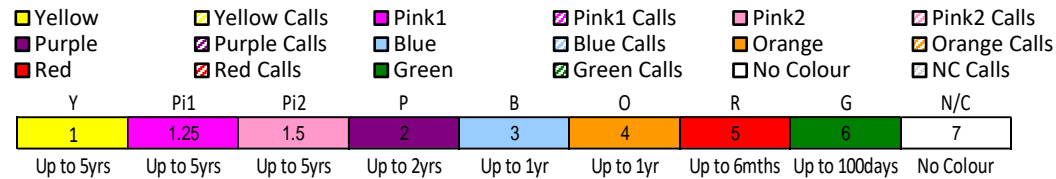
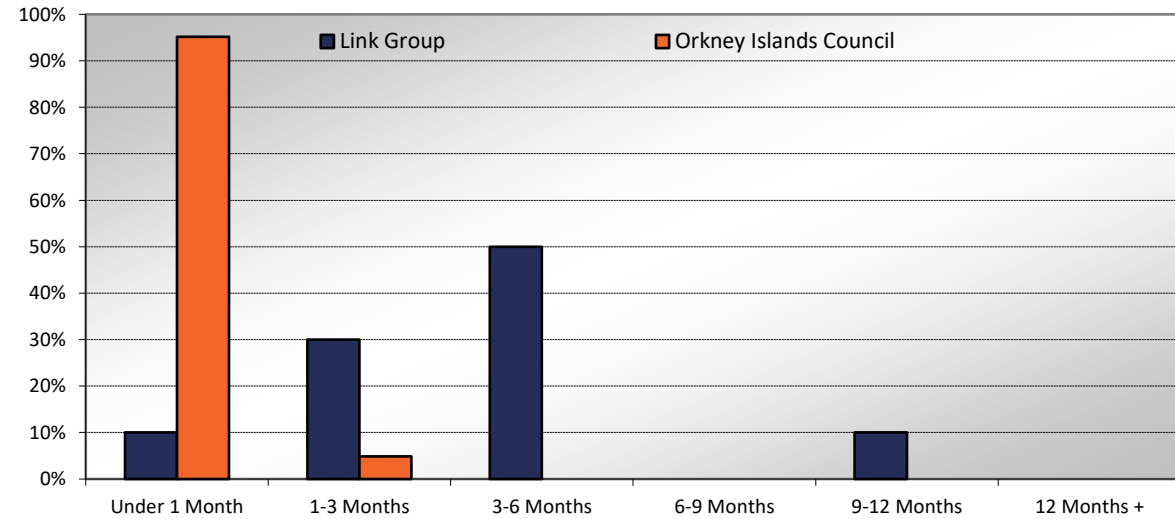
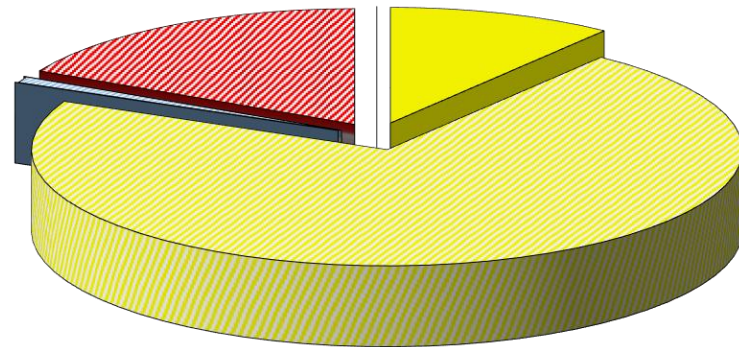
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Bank of Scotland Plc (RFB)	3,200,001	5.14%		Call	A+	0.000%
The Royal Bank of Scotland Plc (RFB)	150,536	1.45%		Call	A+	0.000%
MMF Aberdeen Standard Investments	4,400,000	5.35%		MMF	AAAm	
MMF BlackRock	4,400,000	5.21%		MMF	AAAm	
MMF Insight	4,400,000	5.24%		MMF	AAAm	
DMO	1,000,000	5.30%	29/08/2023	31/10/2023	AA-	0.002%
DMO	900,000	5.32%	11/09/2023	15/11/2023	AA-	0.003%
Total Investments	£18,450,537	5.22%				0.001%

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **1.71**

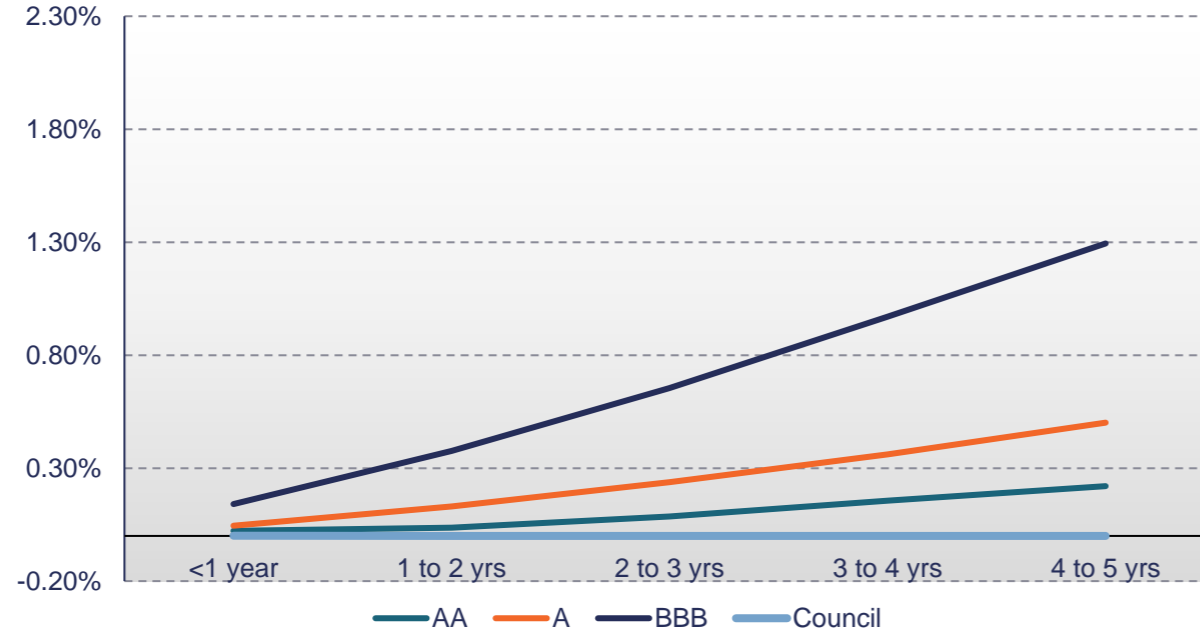
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	81.84%	£15,100,000	87.42%	£13,200,000	71.54%	5.27%	5	8	38	64
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.82%	£150,536	100.00%	£150,536	0.82%	1.45%	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	17.34%	£3,200,001	100.00%	£3,200,001	17.34%	5.14%	0	0	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£18,450,537	89.70%	£16,550,537	89.70%	5.22%	4	7	38	64

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Investment Risk and Rating Exposure

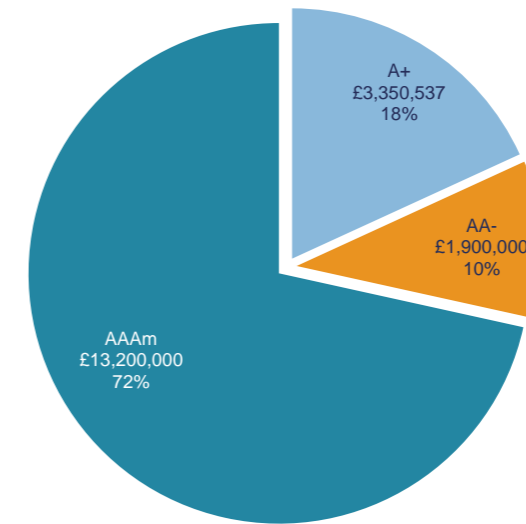
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
Council	0.00%	0.00%	0.00%	0.00%	0.00%

Rating Exposure



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
27/09/2023	1988	DNB Bank ASA	Norway	The Long-Term Rating was upgraded to 'Aa1' from 'Aa2'; The Long Term Outlook changed to Stable from Positive.

Orkney Islands Council

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
15/09/2023	1987	Danske Bank AS	Denmark	The Long-Term Rating was upgraded to 'A+' from 'A'; The Long Term Outlook is Stable.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action

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Investment Portfolio Benchmarking Analysis September 2023

Group Members:

Aberdeen City Council
Aberdeenshire Council
Angus Council
Clackmannanshire Council
Midlothian Council
Orkney Islands Council
Perth And Kinross Council
The Highland Council

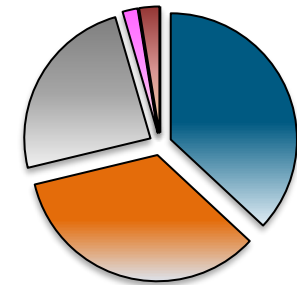
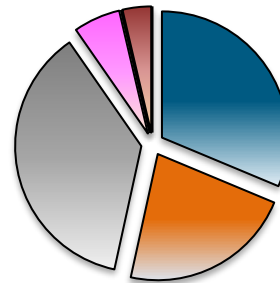
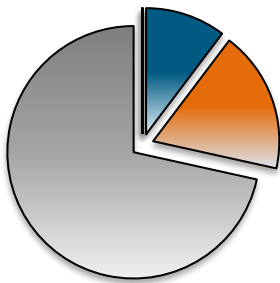
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Summary Sheet

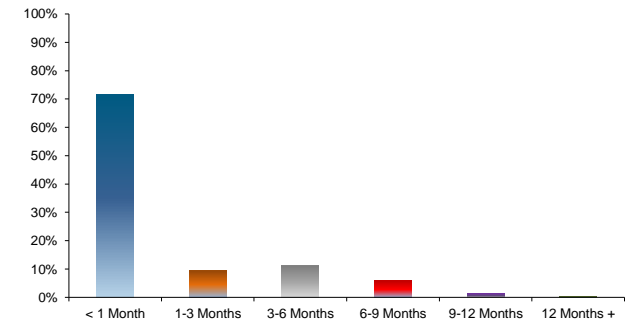
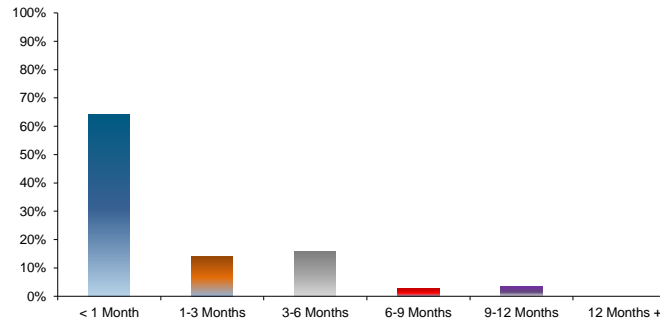
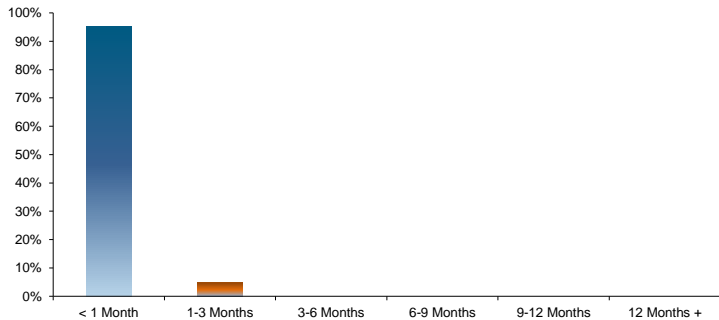
Orkney Islands Council		Benchmark Group 6 (8) Basic Portfolio Characteristics		Scottish Unitary Authorities (22)	
WARoR	5.22%		5.15%		5.04%
WAM	4		50		39
WATT	7		93		84
WA Credit Risk	1.71		3.21		3.05
Model WARoR	5.16%		5.16%		5.15%
Difference	0.06%		-0.01%		-0.10%
Model Band	5.02% - 5.31%		5.01% - 5.30%		5.00% - 5.29%
Performance	Inline		Inline		Inline

Asset Breakdown

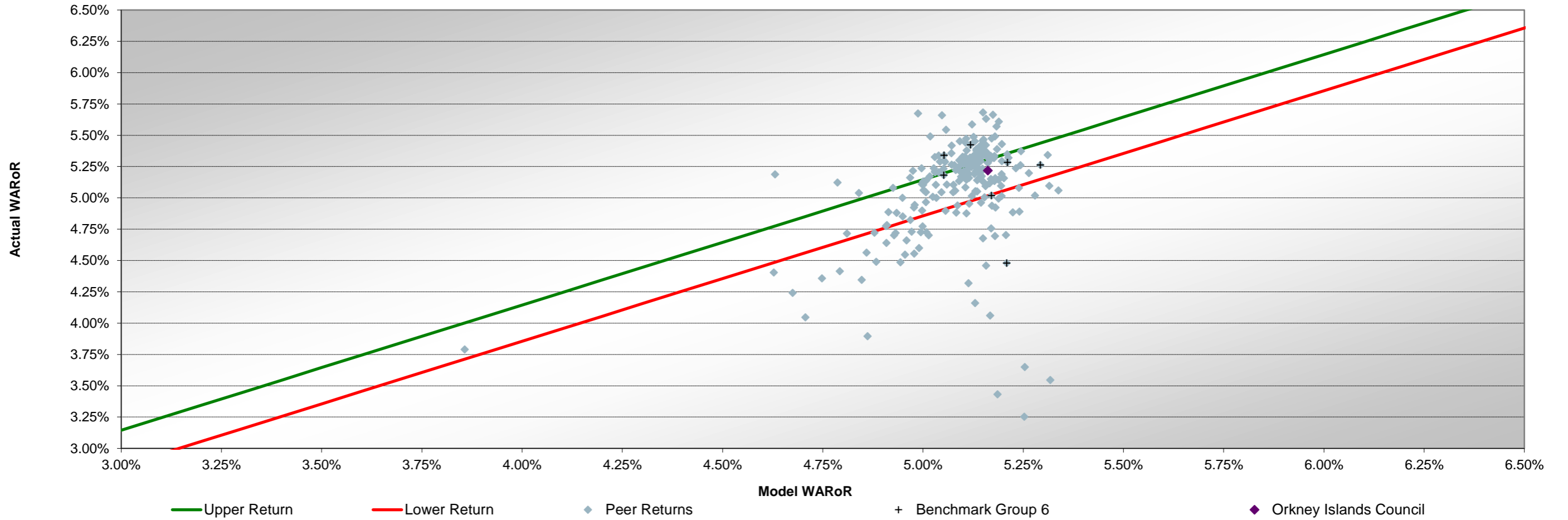
- Fixed Deposits
- Calls & O/N
- MMFs
- USDBFs
- Struct. Prods.
- Bonds
- FRNs
- CDs



Maturity Profiles



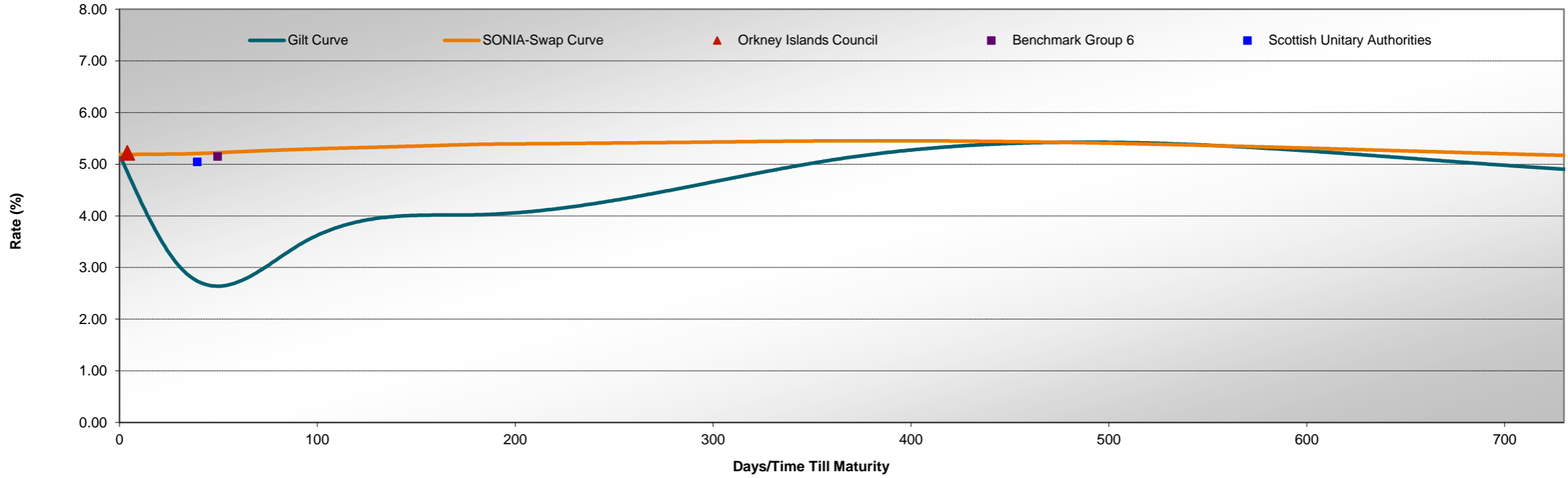
Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Orkney Islands Council	5.22%	5.16%	0.06%	5.02%	5.31%	Inline

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Returns Comparable Against the Risk-Free Rate and SONIA Swap Curve



	WARoR	WAM	WATT	WARisk	Gilt	SONIA-Swap	Difference		Model	
							Gilt	SONIA-Swap	Bands	Performance
Orkney Islands Council	5.22%	4	7	1.71	4.84%	5.19%	0.37%	0.03%	5.02% - 5.31%	Inline
Benchmark Group 6	5.15%	50	93	3.21	2.64%	5.22%	2.51%	-0.07%	5.01% - 5.30%	Inline
Scottish Unitary Authorities	5.04%	39	84	3.05	2.74%	5.21%	2.30%	-0.16%	5.00% - 5.29%	Inline

Orkney Islands Council

Peer Comparison

	Orkney Islands Council	Benchmark Group 6 (8)		Scottish Unitary Authorities (22)		Population Average (229)	
Basic Characteristics							
Principal	£18,450,537	£68,539,448		£70,905,047		£108,273,109	
WARoR	5.22%	5.15%		5.04%		5.09%	
WAM	4	50		39		79	
WATT	7	93		84		154	
WA Credit Risk	1.71	3.21		3.05		2.81	
Portfolio Breakdown							
Fixed Deposits	10.30%	31.29%	5	36.94%	18	54.85%	203
Calls & O/N	18.16%	22.15%	8	34.31%	18	11.44%	158
MMFs	71.54%	36.91%	7	24.25%	17	28.24%	185
USDBFs	0.00%	6.00%	1	1.93%	2	0.67%	13
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.22%	5
Bonds	0.00%	0.00%	0	0.00%	1	1.42%	13
FRNs	0.00%	0.00%	0	0.00%	0	0.10%	1
CDs	0.00%	3.66%	1	2.57%	2	3.05%	23
Institution Breakdown							
Banks	18.16%	53.46%	8	58.13%	0	45.21%	214
Building Soccs.	0.00%	0.00%	0	1.60%	0	2.53%	49
Government	10.30%	3.63%	2	14.09%	19	23.08%	134
MMFs	71.54%	36.91%	7	24.25%	3	28.27%	185
USDBFs	0.00%	6.00%	1	1.93%	2	0.60%	13
MLDBs	0.00%	0.00%	0	0.00%	14	0.09%	1
Other	0.00%	0.00%	0	0.00%	1	0.22%	10
Domestic/Foreign Exposure							
Domestic	28.46%	48.83%	8	68.58%	4	62.02%	222
Foreign	0.00%	8.26%	3	5.25%	1	9.08%	86
MMFs	71.54%	36.91%	7	24.25%	3	28.30%	185
USDBFs	0.00%	6.00%	1	1.93%	2	0.60%	13
Maturity Structure							
< 1 Month	95.12%	64.26%		71.46%		55.13%	
1-3 Months	4.88%	13.86%		9.49%		17.21%	
3-6 Months	0.00%	15.88%		11.11%		16.77%	
6-9 Months	0.00%	2.69%		5.99%		5.46%	
9-12 Months	0.00%	3.31%		1.49%		4.05%	
12 Months +	0.00%	0.00%		0.46%		1.39%	

Orkney Islands Council

Detailed Peer Comparison

	Orkney Islands Council				Benchmark Group 6 (8)					Scottish Unitary Authorities (22)						
	%	WARoR	WAM	WATT	%	WARoR	WAM	WATT	n	%	WARoR	WAM	WATT	n		
Asset Breakdown																
Fixed Deposits	10.30%	5.31%	38	64	31.29%	5.21%	61	128	5	36.94%	5.18%	64	141	15		
Calls	18.16%	4.97%	0	0	22.15%	4.39%	22	22	8	34.31%	4.59%	4	4	19		
Overnight	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MMFs	71.54%	5.27%	0	0	36.91%	5.32%	0	0	7	24.25%	5.32%	0	0	14		
USDBFs	0.00%	0.00%	0	0	6.00%	4.36%	0	0	1	1.93%	4.25%	0	0	1		
Structured Prods.	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Cert.of Deposit	0.00%	0.00%	0	0	3.66%	5.31%	20	37	1	2.57%	5.31%	8	28	2		
FRNs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Gov. Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	5.40%	0	0	0		
Corp. Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MLDB Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Property Funds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	141	0		
Institutional Breakdown																
Banks	18.16%	4.97%	0	0	53.46%	4.95%	64	115	8	58.13%	4.90%	43	91	19		
Building Socs.	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	1.60%	3.16%	3	18	3		
Government	10.30%	5.31%	38	64	3.63%	4.92%	22	51	2	14.09%	4.99%	46	160	10		
MMFs	71.54%	5.27%	0	0	36.91%	5.32%	0	0	7	24.25%	5.32%	0	0	14		
USDBFs	0.00%	0.00%	0	0	6.00%	4.36%	0	0	1	1.93%	4.25%	0	0	1		
MLDBs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Other	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Foreign Breakdown																
Domestic	28.46%	5.10%	14	23	48.83%	4.96%	67	115	8	68.58%	2.50%	50	118	21		
Foreign	0.00%	0.00%	0	0	8.26%	1.87%	40	119	3	5.25%	5.04%	33	61	4		
MMF	71.54%	5.27%	0	0	36.91%	5.32%	0	0	7	24.25%	5.32%	0	0	14		
USDBFs	0.00%	0.00%	0	0	6.00%	4.36%	0	0	1	1.93%	4.25%	0	0	1		
Sovereign State Breakdown																
UK	28.46%	5.10%	14	23	UK	48.83%	4.96%	67	115	8	UK	68.58%	2.50%	50	118	21
					AUS	3.44%	1.44%	54	74	2	AUS	1.75%	0.43%	20	42	3
					CAN	1.63%	0.60%	8	46	1	CAN	1.29%	0.58%	35	50	3
					SWE	1.36%	0.63%	23	45	1	SING	0.88%	0.14%	6	13	1
					SING	0.94%	0.64%	11	27	1	UAE	0.69%	0.09%	6	17	1
					GER	0.56%	0.56%	8	46	1	FIN	0.48%	0.08%	4	17	1
					FIN	0.34%	0.67%	30	46	1	GER	0.17%	0.20%	15	17	1
Sovereign Rating Breakdown																
AA	28.46%				AA	48.83%					AA-	68.58%				
					AAA	4.00%					AAA	2.79%				
					AA+	1.97%					AA+	1.76%				
					BBB+	1.36%					AA	0.69%				
					A-	0.94%										

Since MMFs are ring-fenced institutions and do not belong to a specific country, the sovereign breakdowns will exclude them from the analysis. As a result the "% of Portfolio" may not add up to 100%.

Benchmarking Rationale and Methodology

The aim of this benchmarking model is to compare portfolio weighted average rate of returns (WARoR) by adjusting for the risks inherent in the portfolio. The main risks in cash portfolios are:

- Maturity Risk
- Credit Risk

As such, the model must normalise WARoRs by adjusting for these risks so as to calculate risk-adjusted returns, or "Model WARoR". The risks the model looks at include:

- Maturity Risk
- Credit Risk
- Change in the shape of the yield curve

This will account for the majority of all risk in the portfolio, however, there will still be some "model uncertainty" as no model can fully explain each WARoR. The difference in model WARoR and actual WARoR may be due to the following reasons:

- Timing differences
- Higher diversification
- Tilt towards a particular asset type or institution type that is extraordinarily paying an above market rate (e.g. special tranche rates)

As a result, the model will build "Standard Error Bands" around the model WARoR calculated so as to adjust for this model uncertainty. This gives us a range for where the actual WARoR should fall. If the actual WARoR is above this upper band, then we would say the client is above on a risk-adjusted basis given the risks inherent in the portfolio. If the actual WARoR is below the lower band, then we would say the client is below on a risk-adjusted basis given the risks inherent in the portfolio.

Model Band Some values when compared to the Model Band will fall outside the range even if the value appears to be equal to the minimum or maximum. This is due to rounding the data to two decimal places within Excel.

For example:
The value returned is 0.9512 and the range is 0.9541 – 1.2321. When rounded the data will be represented as 0.95 and a range of 0.95 – 1.23, although this appears to be in line with the range the underlying data will actually fall outside.

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Link Asset Services' Suggested Credit Methodology. 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR