Item: 6

Investments Sub-committee: 25 February 2021.

Temporary Loans.

Report by Head of Finance.

1. Purpose of Report

To advise of the status of the temporary loan portfolio as at 31 December 2020.

2. Recommendation

The Sub-committee is invited to note:

2.1.

The status of the temporary loan portfolio as at 31 December 2020, as detailed in section 3 of this report.

2.2.

That, for the period 1 April to 31 December 2020, the temporary loans portfolio made a return of £145,428.46 at an average interest rate of 0.58%.

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 31 December 2020 totalled £32,379,582. Further details are provided in the Monthly Investment Analysis Review that is prepared by Link Asset Services, attached as Appendix 1 to this report.

3.2.

The following transactions have taken place since 31 December 2020:

- £2,000,000 deposit rolled forward with Santander at a rate of 0.58%.
- £3,000,000 matured from West Dunbartonshire Council.

3.3.

The value of the temporary loans stood at £32,064,658 as at 31 January 2021.

4. Rate of Return

4.1.

For the period 1 April to 31 December 2020, the temporary loans returned an average interest rate of 0.58%. This equates to a return of £145,428.46 on the temporary loans for the nine months to 31 December 2020.

4.2.

By comparison, the equivalent 90-day London Inter-Bank Offered Rate of 0.03% is considered to be the target.

4.3.

With inflation quoted at 0.6% for September 2020 based on Consumer Price Index (1.2% Retail Price Index), the return on temporary loans equates to a relative loss in value of 0.02% 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 31 December 2020, attached as Appendix 2 to this report, indicates that the Council is performing in line with the weighted average rate of return of the benchmarking group and ahead of the Scottish Unitary Authorities.

5. Cash Balances

5.1.

Recurring slippage continues to be a feature within the approved capital programme. During financial year 2019/20, works valued at £14,356,000 were reprofiled into future periods. While this would ordinarily have defaulted into financial year 2020/21, a large proportion of this related to delays with the proposed new Kirkwall Care

Facility and resulted in the overall slippage including a further £4,239,000 being reprofiled into future periods from financial year 2020/21. Accordingly, to date, a total of £18,595,000 of planned capital programme spend has been slipped or deferred by between 2 to 4 years.

5.2.

In addition to this, it should be noted that COVID-19 closedown measures have had an adverse impact on delivery of the capital programme during the first quarter of financial year 2020/21, such that little capital spend was incurred during this period. Not only does this impact on the cost of delivering the capital programme, it also delays the timescale over which the capital finance is required. Uncertainty over the timing of contract payments on capital projects results in additional cash balances being held over the short term. Although these surplus balances are re-invested, the shorter duration and uncertainty does impact on performance.

5.3.

On 26 March 2020, the Council borrowed £10,000,000 from the Public Works Loan Board, repayable on 25 March 2070, at an interest rate of 1.28%. This is regarded as an effective way for the Council to manage the risk of interest rate movements over the life of the capital programme by refinancing some debt managed internally, and recognising, for example, the approval of additional housing build projects as exceptions to the capital programme. This also provided short-term cashflow benefits at a time when the full cost of the COVID-19 crisis to the Council is unknown.

5.4.

To help put this into context, the main draw on cash balances remains that of the Council’s approved five-year capital programme, with a planned spend of £67,259,000 which, after allowing for grant income, capital receipts and contributions, leaves a capital financing or borrowing requirement of £21,601,000. After adding back direct funding contributions from revenue resources and use of reserves, this equates to a net outflow of cash to the value of £30,668,000 over the current five-year period 2020 to 2025.

5.5.

As part of the Treasury Management Strategy Statement for financial year 2020/21, the Council is permitted to borrow to meet its capital financing requirements for the period 2020 to 2023, being the current financial year plus the next two years. With the capital programme typically being front loaded, this represents an additional capital financing requirement of £22,111,000, comprising £12,837,000 for financial year 2020/21 plus a further £9,274,000 across financial years 2021/22 and 2022/23. In cashflow terms, this equates to a net outflow of cash of £33,144,000 over the three years.

	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
Capital Expenditure	26,704	17,757	11,345	55,806
Financed By:				
Government Grants	10,293	5,505	5,777	21,575
Other Grants and Capital Receipts	991	96	0	1,087
Revenue Contributions	1,392	569	569	2,530
Capital Contributions	1,191	4,340	2,972	8,503
Sub-total:	13,867	10,510	9,318	33,695
Capital Financing/Borrowing Requirement	12,837	7,247	2,027	22,111
Net Cash Outflow	15,420	12,156	5,568	33,144

5.6.

The following analysis of the consolidated loans fund summarises the main components that make up the temporary loans balance for the Council's activities as a whole. This indicates that these balances should reduce considerably during financial year 2020/21 based on budgets. However, estimated outturn has also been included which is based on information currently being provided by services in relation to disruptions to capital project delivery and service provision as a result of the COVID-19 pandemic:

Consolidated Loans Fund.	2020/21 Budgets £000.	2020/21 Movements £000.	2020/21 Estimates £000.
Capital:			
Debt - Public Works Loans Board/Salix.	35,100.	0.	35,100.
Loans Fund Deposits – Unapplied Capital Receipts.	3,300.	0.	3,300.
Loans Fund Advances – Capital Financing Requirements.	-51,300.	6,500.	-44,800.

Revenue:			
Loans Fund Deposits (Revenue Deposits).	29,000.	-7,600.	21,400.
Loans Fund Advances (Revenue Advances/Use of Reserves).	-800.	0.	-800.
Net Current Assets	300.	0.	300.
Bank (Balance)/Overdraft.	0.	0.	0.
Temporary Loans Balance.	15,600.	-1,100.	14,500.

5.7.

The table above shows the current projected outturn on both capital and revenue expenditure, with slippage on the capital programme for 2020/21 currently estimated at £6,500,000. However, this is offset by projected overspends on revenue budgets of £7,600,000 as a result of additional expenditure pressures and reduced income levels.

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

Gareth Waterson, Head of Finance, Email gareth.waterson@orkney.gov.uk.

Colin Kemp, Corporate Finance Senior Manager, Email colin.kemp@orkney.gov.uk.

Shonagh Merriman, Accounting Manager (Corporate Finance), Email shonagh.merriman@orkney.gov.uk.

10. Appendices

Appendix 1: Link Asset Services Monthly Investment Analysis Review for December 2020.

Appendix 2: Link Asset Services Investment Portfolio Benchmarking Analysis for December 2020.

Appendix 1

Orkney Islands Council

Monthly Investment Analysis Review

December 2020

Monthly Economic Summary

General Economy

The UK Flash (i.e. provisional) Manufacturing PMI rose to 57.3 in December from 55.6 in November, pointing to the strongest growth in the manufacturing sector since November 2017 as businesses brought forward orders to guard against potential disruption caused by the end of the Brexit transition period. The Flash Services PMI, meanwhile, rose to 49.9 in December from 47.6 in November but, by remaining below 50, still signalled a second consecutive month of decline in the sector. Ultimately, the manufacturing sector's growth enabled the Flash Composite PMI (which incorporates both sectors), to rise to 50.7 in December from 49.0 in November. Although the rise was less than market expectations of 51.3, it did suggest that private sector output rose during the month. The construction PMI, meanwhile, which is released one month behind, rose to 54.7 in November from 53.1 in October, supported by sharp increases in house building.

Monthly GDP data for October confirmed that the economy grew by 0.4% m/m, less than half the pace of that seen in September's 0.9% increase. The slower pace of growth reflected the gradual re-imposition of nationwide restrictions as COVID-19 cases began to climb once again. The reading suggested that growth was already slowing prior to the subsequent introduction of the second lockdown in November. However, quarterly GDP data confirmed that the economy expanded by a record 16% in the three months to September, compared to a preliminary estimate of 15.5%, largely reflecting the easing of lockdown restrictions earlier in the quarter. Nevertheless, this growth still left the UK economy 8.6% smaller than it was in last year's third quarter. Trade data, meanwhile, revealed that the UK's trade surplus fell from £0.61bn in September to a deficit of £1.74 billion in October, as exports declined by 3.6% on the month while imports rose by 1.2%.

The UK's unemployment rate rose to 4.9% in the three months to October, compared to 4.8% in the previous period and against market expectations of a rise to 5.1%. This represented the highest jobless rate since the three months to August 2016, as employers shed workers as the government's scheme shifted more of the support onus on firms for furloughed employees. Although the scheme was extended at month's end, redundancies still reaching a record 370,000, 56,000 higher than the previous record in the three months to September. More timely data showed that, after falling in each of the previous two months, the number of people claiming unemployment benefits in November rose by 64,300 to 2.7 million, 1.4 million higher than in March. Nevertheless, the continued return of staff from furlough for much of the period saw average weekly earnings (excluding bonuses) rise by 2.8% y/y in the three months to October - the largest rise since February.

UK inflation, as measured by the Consumer Price Index, dropped to 0.3% y/y in November from 0.7% y/y in October and lower than market expectations of a fall to 0.6% y/y. The greater than expected fall was largely attributable to increased discounting during Black Friday sales at month-end. This discounting also contributed to consumer prices falling by 0.1% m/m in November after a flat reading in October, compared to expectations of a 0.1% rise. Despite CPI inflation falling further away from the Bank of England's 2% target, the Monetary Policy Committee unanimously voted to maintain policy rates and its quantitative easing programme at its December meeting. The prospect of a subsequent "emergency" meeting in January to announce additional stimulus, which the market postulated might occur in the event of a "no-deal" Brexit, eventually dissipated once the UK signed a free trade agreement with the EU just prior to month end.

Retail sales, meanwhile, fell 3.8% m/m in November, falling short of market forecasts of a 2.8% contraction and October's 1.3%

gain. This marked the first month of falling sales since April, reflecting the imposition of the second national lockdown which forced non-essential retail stores to close. Despite this, however, retail sales remain 2.4% y/y higher and above their pre-pandemic levels. Consumer confidence, meanwhile, rose to -26 in December from -33 in November, as the launch of the UK's COVID-19 vaccination programme boosted sentiment.

Reflecting the impact of public health measures and government policies to support the economy during the coronavirus pandemic, the UK reported a public sector budget deficit (excluding public sector banks) of £31.6 billion in November, £26.0 billion more than in November 2019 and the third-highest monthly deficit since records began in 1993. Borrowing in the first eight months of this financial year is estimated to have been £240.9 billion, a record in any April to November period. Borrowing looks set to remain elevated following the announcement of further support for the economy this month.

In the US, the imposition of COVID-19 restrictions saw the economy add 245,000 jobs in November, significantly below a downwardly revised 610,000 jobs in October and some way less than market forecasts of 469,000. Nevertheless, the gain was sufficient to nudge the US unemployment rate down to 6.7% in November from 6.9% in October, lower than forecasts of 6.8%. Prices (as measured by the Fed's preferred core Personal Consumption Expenditure deflator), rose just 1.1% y/y in November compared to expectations of 1.3% y/y and the Federal Reserve's 2% average target. Given the state of the economy, it was no surprise to see the Federal Reserve maintain their current ultra-accommodative monetary policy stance during December's meeting. Congress, meanwhile, finally approved an $892bn aid package to support future growth.

The final estimate of Eurozone GDP revealed that the bloc's economy expanded by 12.5% q/q during Q3, rebounding from the record 11.8% q/q slump in Q2. However, the rise in December's Flash Composite PMI to just 49.8 from 45.3 in November – remaining below the expansion level of 50 – suggests that the bloc contracted again during Q4, as measures to counter rising coronavirus cases were reintroduced. With prices across the bloc falling by 0.3% y/y in November against this backdrop, the European Central Bank maintained interest rates at current levels. However, as expected, it increased the size and duration of its quantitative easing programme (to €1,850 billion) during its December meeting and also announced three further tranches of its Targeted Longer Term Refinancing Operations (TLTROs) to provide additional support.

Housing

Both the Halifax and Nationwide house price indices continued to rise, the former by 1.2% m/m during November and the latter by 0.8% m/m during December – which were both up from the respective 0.3% m/m and 0.9% m/m rises witnessed during their prior months. On an annual basis, the indices have risen 7.6% y/y and 7.3% y/y respectively. Behavioural shifts as a result of COVID-19 may provide support for housing market activity, while the stamp duty holiday is expected to continue to provide a near term boost by bringing purchases forward.

Currency

The commencement of distribution of COVID-19 vaccines in the UK (which dimmed the allure of the US Dollar as a safe haven), as well as the agreement of a post-Brexit UK-EU trade deal and further loosening of Eurozone monetary policy resulted in Sterling improving against both the Dollar and the Euro this month.

October	Start	End	High	Low
GBP/USD	$1.3363	$1.3670	$1.3670	$1.3211
GBP/EUR	€1.1106	€1.1172	€1.1172	€1.0907

Forecast

Both Link Group and Capital Economics have made no change to their interest rate forecasts. Bank Rate is forecast to remain unchanged at 0.1% throughout 2021.

Bank Rate	Now	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Link Group	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-			-

Orkney Islands Council

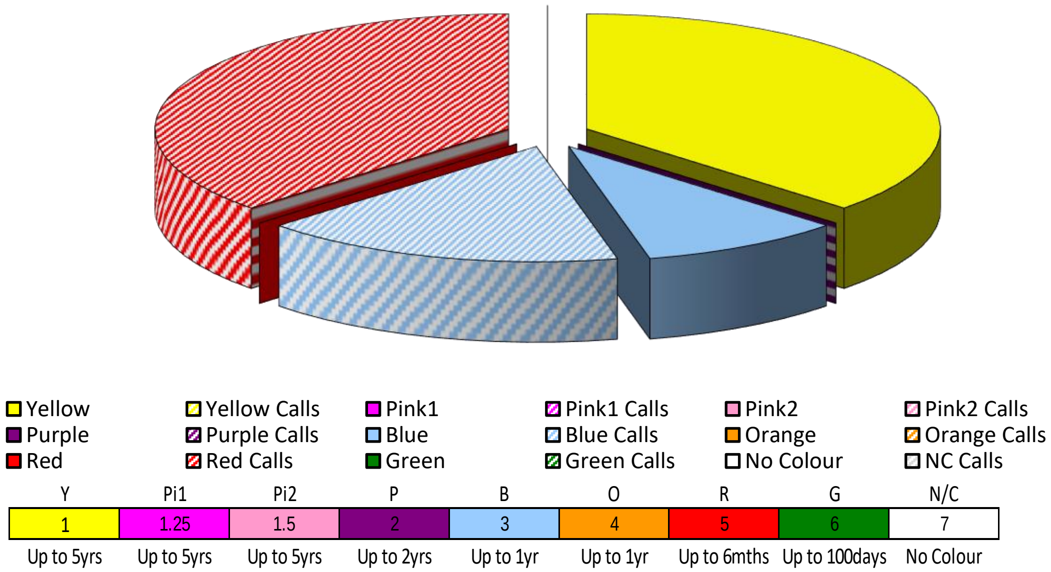
Current Investment List

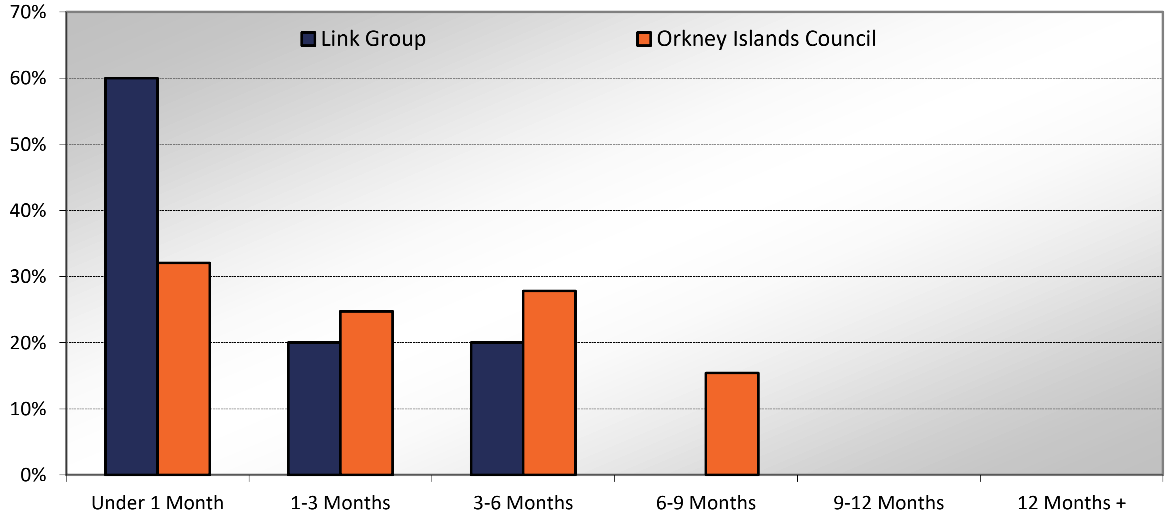
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
The Royal Bank of Scotland Plc (RFB)	5,379,582	0.01%		Call	A	0.000%
Santander UK Plc	2,000,000	0.58%		Call15	A	0.002%
West Dunbartonshire Council	3,000,000	0.35%	26/06/2020	26/01/2021	AA-	0.002%
Santander UK Plc	2,000,000	0.58%		Call46	A	0.006%
Bank of Scotland Plc (RFB)	2,000,000	0.10%		Call74	A+	0.010%
West Dunbartonshire Council	4,000,000	0.15%	28/09/2020	29/03/2021	AA-	0.006%
Bank of Scotland Plc (RFB)	2,000,000	0.10%		Call105	A+	0.014%
National Westminster Bank Plc (RFB)	3,000,000	0.49%	10/06/2020	09/06/2021	A	0.021%
Santander UK Plc	2,000,000	0.58%		Call166	A	0.022%
Santander UK Plc	2,000,000	0.58%		Call180	A	0.024%
Highland Council	5,000,000	0.18%	02/12/2020	02/09/2021	AA-	0.016%
Total Investments	**£32,379,582**	**0.28%**				0.010%

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.

Orkney Islands Council

Portfolio Composition by Link Group's Suggested Lending Criteria





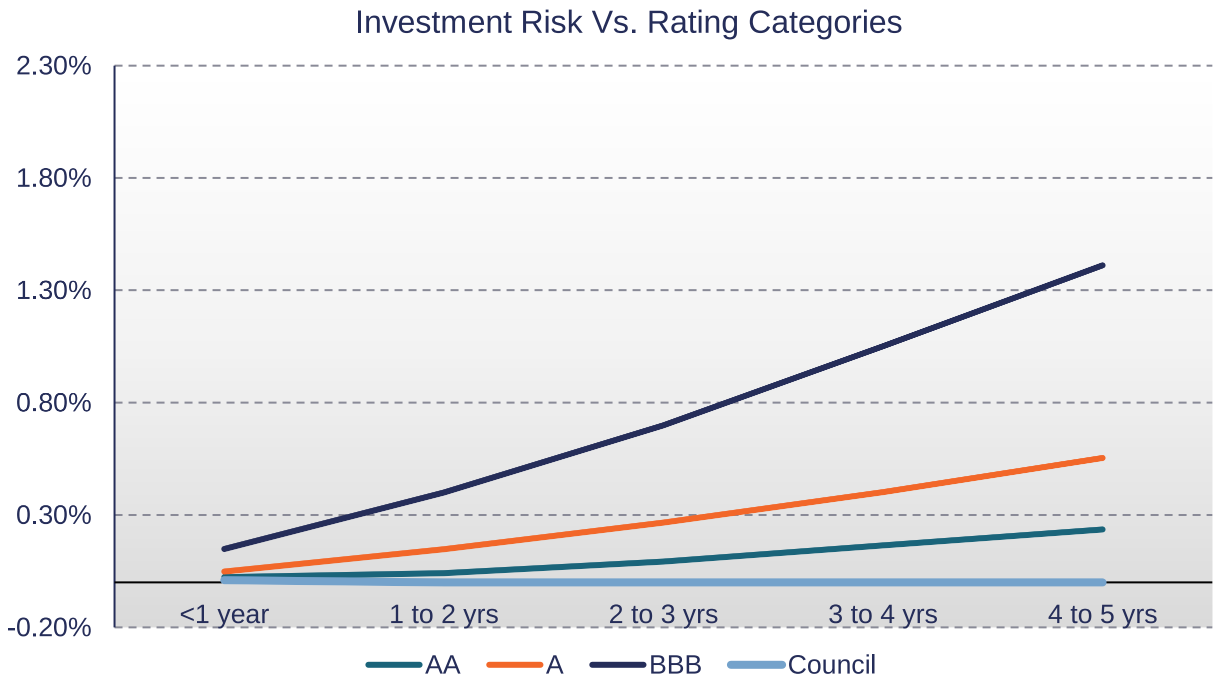
Portfolios weighted average risk number = 3.00

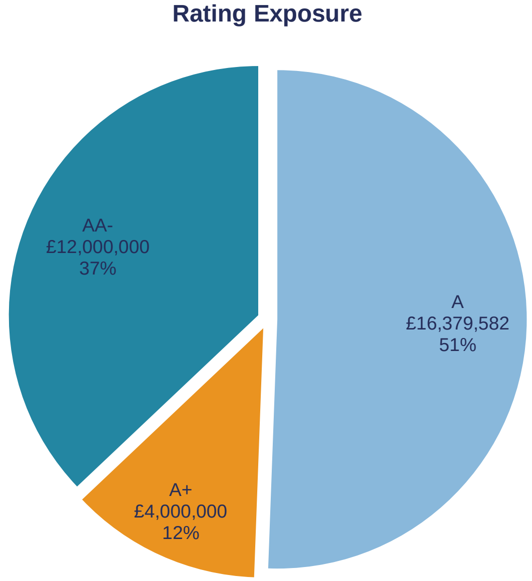
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	37.06%	£12,000,000	0.00%	£0	0.00%	0.21%	138	228	138	228
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	25.88%	£8,379,582	64.20%	£5,379,582	16.61%	0.18%	57	130	160	364
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	37.06%	£12,000,000	100.00%	£12,000,000	37.06%	0.42%	98	98	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
	100.00%	**£32,379,582**	**53.67%**	**£17,379,582**	**53.67%**	**0.28%**	**102**	**155**	**142**	**255**

Orkney Islands Council

Investment Risk and Rating Exposure





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%	0.24%
A	0.05%	0.15%	0.27%	0.40%	0.55%
BBB	0.15%	0.40%	0.70%	1.05%	1.41%
Council	0.010%	0.000%	0.000%	0.000%	0.000%

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.

Orkney Islands Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
				No rating changes to report.

Orkney Islands Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
01/12/2020	1787	Credit Suisse AG	Switzerland	The Long Term Rating was upgraded to 'Aa3' from A1'. At the same time, the Outlook was changed to Stable from Positive.

Orkney Islands Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
				No rating changes to report.

Appendix 2

LINK Group

Orkney Islands Council

Investment Portfolio Benchmarking Analysis
December 2020

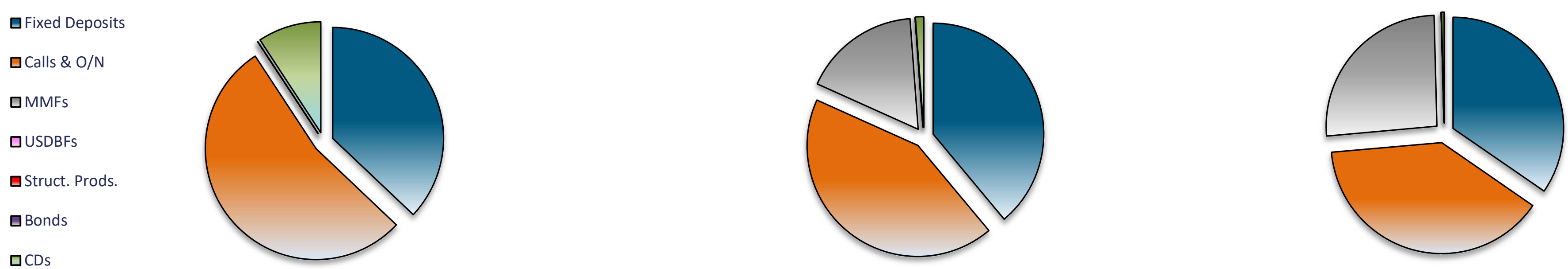
Group Members:
Aberdeen City Council
Aberdeenshire Council
Angus Council
Clackmannanshire Council
Highland Council
Midlothian Council
Orkney Islands Council
Perth & Kinross Council

Orkney Islands Council

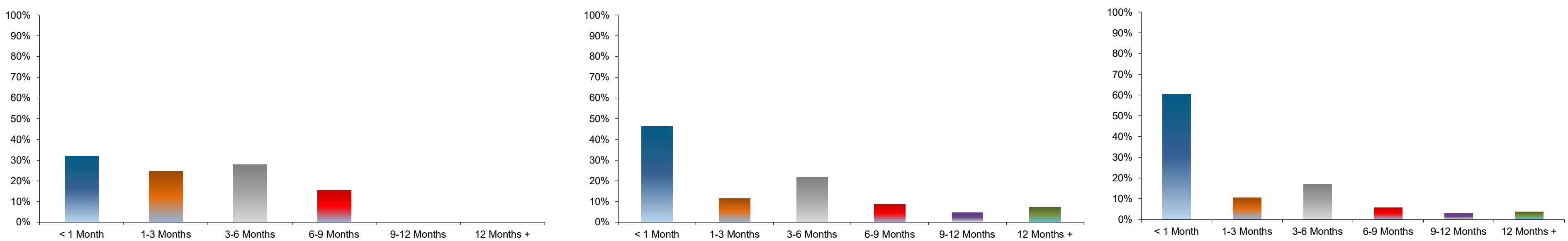
Summary Sheet

	Orkney Islands Council	Benchmarking Group 6 (8)	Scottish Unitary Authorities (23)
		Basic Portfolio Characteristics	
WARoR	0.28%	0.38%	0.23%
WAM	102	114	71
WATT	155	186	117
WA Credit Risk	3.00	3.27	3.10
Model WARoR	0.23%	0.30%	0.22%
Difference	0.06%	0.07%	0.01%
Model Band	0.17% - 0.28%	0.25% - 0.35%	0.17% - 0.27%
Performance	Above	Above	Inline

Asset Breakdown

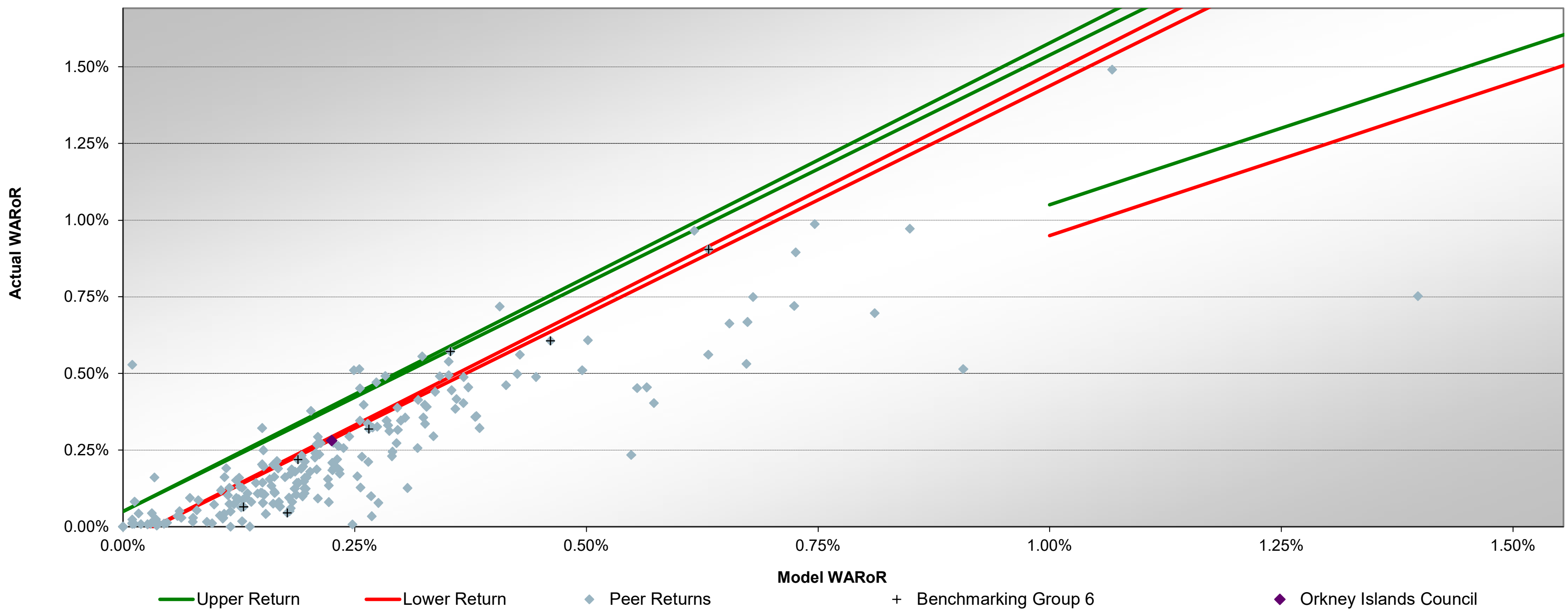


Maturity Profiles



Orkney Islands Council

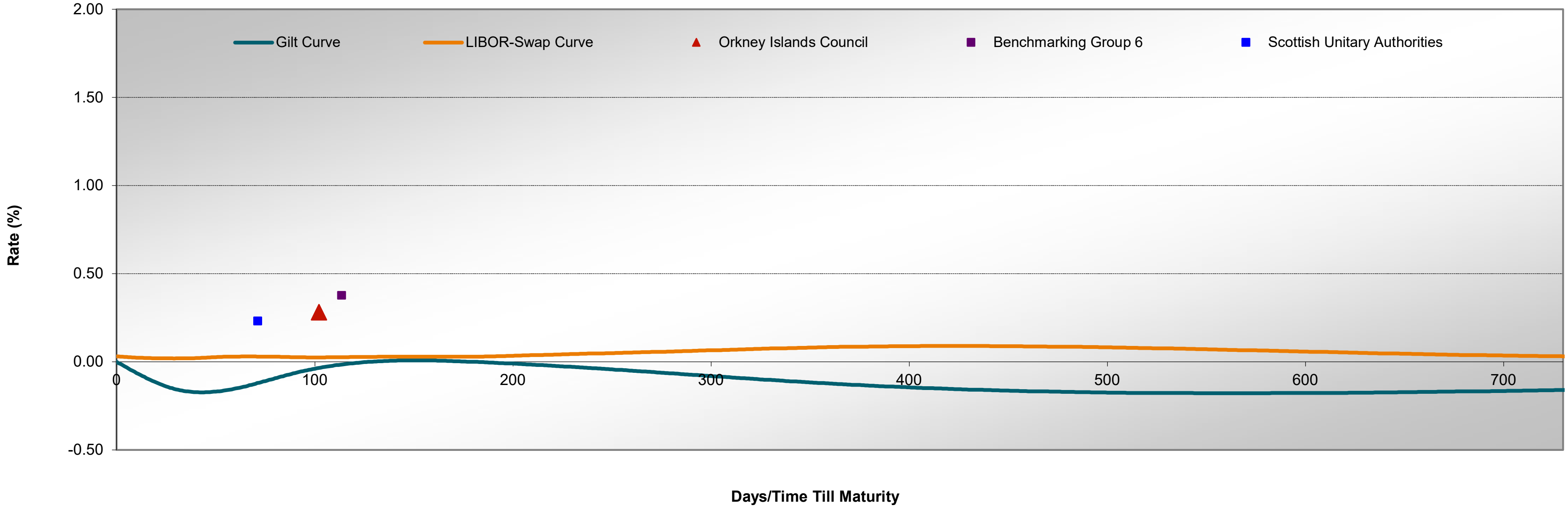
Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Orkney Islands Council	0.28%	0.23%	0.06%	0.17%	0.28%	Above

Orkney Islands Council

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



							Difference		Model	
	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Gilt	LIBOR-Swap	Bands	Performance
Orkney Islands Council	0.28%	102	155	3.00	-0.03%	0.03%	0.32%	0.26%	0.17% - 0.28%	Above
Benchmarking Group 6	0.38%	114	186	3.27	-0.01%	0.03%	0.39%	0.35%	0.25% - 0.35%	Above
Scottish Unitary Authorities	0.23%	71	117	3.10	-0.12%	0.03%	0.35%	0.20%	0.17% - 0.27%	Inline

Orkney Islands Council

Peer Comparison

	Orkney Islands Council	Benchmarking Group 6 (8)		Scottish Unitary Authorities (23)		Population Average (214)	
Basic Characteristics							
Principal	£32,379,582	£87,328,616		£68,657,950		£91,958,913	
WARoR	0.28%	0.38%		0.23%		0.24%	
WAM	102	114		71		65	
WATT	155	186		117		128	
WA Credit Risk	3.00	3.27		3.10		2.86	
Portfolio Breakdown							
Fixed Deposits	37.06%	38.91%	6	34.59%	18	38.43%	173
Calls & O/N	53.67%	42.82%	8	39.01%	19	31.07%	189
MMFs	0.00%	17.11%	4	26.00%	13	27.86%	162
USDBFs	0.00%	0.00%	0	0.00%	0	1.12%	16
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.13%	3
Bonds	0.00%	0.00%	0	0.00%	0	0.25%	3
CDs	9.27%	1.16%	1	0.40%	1	1.13%	18
Institution Breakdown							
Banks	62.94%	56.63%	8	50.48%	21	42.64%	200
Building Socs.	0.00%	0.00%	0	1.45%	2	4.71%	58
Government	37.06%	26.26%	4	22.07%	12	23.13%	133
MMFs	0.00%	17.11%	4	26.00%	13	27.86%	162
USDBFs	0.00%	0.00%	0	0.00%	0	1.12%	16
MLDBs	0.00%	0.00%	0	0.00%	0	0.00%	0
Other	0.00%	0.00%	0	0.00%	0	0.54%	13
Domestic/Foreign Exposure							
Domestic	100.00%	82.26%	8	73.38%	21	68.18%	209
Foreign	0.00%	0.64%	1	0.62%	2	2.84%	43
MMFs	0.00%	17.11%	4	26.00%	13	27.86%	162
USDBFs	0.00%	0.00%	0	0.00%	0	1.12%	16
Maturity Structure							
< 1 Month	32.06%	46.24%		60.35%		56.46%	
1-3 Months	24.71%	11.49%		10.60%		17.26%	
3-6 Months	27.80%	21.78%		16.91%		16.29%	
6-9 Months	15.44%	8.50%		5.64%		5.08%	
9-12 Months	0.00%	4.75%		2.92%		3.12%	
12 Months +	0.00%	7.25%		3.59%		1.79%	

Orkney Islands Council

Detailed Peer Comparison

	Orkney Islands Council					Benchmarking Group 6 (8)						Scottish Unitary Authorities (23)				
	%	WARoR	WAM	WATT		%	WARoR	WAM	WATT	n		%	WARoR	WAM	WATT	n
Asset Breakdown																
Fixed Deposits	37.06%	0.21%	138	228		38.91%	0.65%	157	277	6		34.59%	0.39%	113	199	18
Calls	53.67%	0.29%	67	67		42.82%	0.21%	57	57	8		39.01%	0.16%	34	34	19
Overnight	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		0.00%	0.00%	0	0	0
MMFs	0.00%	0.00%	0	0		17.11%	0.01%	0	0	4		26.00%	0.01%	0	0	13
USDBFs	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		0.00%	0.00%	0	0	0
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	9.27%	0.49%	160	364		1.16%	0.49%	20	46	1		0.40%	0.49%	7	16	1
Gov. Bonds	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		0.00%	0.00%	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
Institutional Breakdown																
Banks	62.94%	0.32%	81	111		56.63%	0.32%	61	106	8		50.48%	0.22%	46	77	21
Building Socs.	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		1.45%	0.03%	2	6	2
Government	37.06%	0.21%	138	228		26.26%	0.68%	150	226	4		22.07%	0.45%	97	154	12
MMFs	0.00%	0.00%	0	0		17.11%	0.01%	0	0	4		26.00%	0.01%	0	0	13
USDBFs	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		0.00%	0.00%	0	0	0
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	100.00%	0.28%	102	155		82.26%	0.43%	141	219	8		73.38%	0.27%	90	142	21
Foreign	0.00%	0.00%	0	0		0.64%	0.02%	3	23	1		0.62%	0.23%	4	12	2
MMF	0.00%	0.00%	0	0		17.11%	0.01%	0	0	4		26.00%	0.01%	0	0	13
USDBFs	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		0.00%	0.00%	0	0	0
Sovereign State Breakdown																
UK	100.00%	0.28%	102	155	UK	82.26%	0.43%	141	219	8	UK	73.38%	0.27%	90	142	21
					AUS	0.64%	0.02%	3	23	1	QAT	0.40%	0.01%	3	4	1
											AUS	0.22%	0.01%	1	8	1
Sovereign Rating Breakdown																
AA-	100.00%				AA-	82.26%					AA-	73.78%				
					AAA	0.64%					AAA	0.22%				

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