MEETING	**PENSIONS COMMITTEE**
DATE	**15 SEPTEMBER 2016**
PURPOSE	**CIPFA'S CODE OF PRACTICE REQUIRES THAT A REPORT BE PRODUCED ON THE RESULTS OF THE COUNCIL'S ACTUAL TREASURY MANAGEMENT ON BEHALF OF THE PENSION FUND.**
TITLE	**TREASURY MANAGEMENT 2015/16**
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1. Introduction and Background

CIPFA's revised Code of Practice on Treasury Management was adopted by the Council on 1st March 2011 and the Council fully complies with its requirements. The Code requires that I report on the results of the Council's actual treasury management in the previous financial year against expectations.

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it was considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2015/16, as amended for the purpose of the Pension Fund. The Pensions Committee approved the TMSS at its meeting on 24 March 2015. As a result, I am required to report on the results of the actual treasury management in 2015/16 against expectations.

2. Investment Activity

The Welsh Assembly Government's (WAG's) revised Investment Guidance came into effect on 1st April 2010 and reiterated the need to focus on security and liquidity, rather than yield. It also recommended that strategies include details of assessing credit risk, reasons for borrowing in advance of need and the use of treasury advisers.

Pension Fund Balances	Balance on 31/03/2015 £m	Balance on 31/03/2016 £m
Balances	13.4	21.1

As requested by the Pensions Committee on 24 March 2015, the pension fund's money was pooled with the Council's general cashflow. As agreed at the Pensions Committee on 17 March 2016 this arrangement continues in 2016/17. Interest rates are still very low but there is no reason to change this decision.

The table below shows a summary of where this pooled money was invested during 2015/16.

Investments	**Balance on 01/04/15 £'000**	**Investments Made £'000**	**Maturities/ Investments Sold £'000**	**Revalue to Fair Value £'000**	**Balance on 31/03/16 £'000**	**Average Rate %**
Call Accounts with Banks with ratings of A- or higher - short term	18,420	146,604	(150,892)	0	14,132	0.43
Investments with Banks and Building Societies with ratings of A- or higher - short term	37,002	114,018	(101,020)	0	50,000	0.65
Building Society Covered Bonds – long term	1,121	1,082	0	70	2,273	1.59
Money Market Funds	0	247,300	(247,300)	0	0	0.47
TOTAL INVESTMENTS	**56,543**	**509,004**	**(499,212)**	**70**	**66,405**	**0.63**
Increase/ (Decrease) in Investments £m					9,862	

Security of capital has remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's), credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/15	5.24	A+	3.62	AA-	64
30/06/15	4.18	A+	2.95	AA	102
30/09/15	4.94	A+	3.44	AA	104
31/12/15	4.62	A+	3.29	AA	91
31/03/16	4.34	AA-	3.57	AA-	96

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody’s concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Authority made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

Update on Investment with Heritable Bank

The authority has now recovered 98% of its investment in Heritable Bank. It is likely that further distributions will be received and that the full amount should be recovered. The timing of future distributions is unclear and depends on settlement of the ongoing court case.

3. Recommendation

The Pensions Committee is asked to receive the report on investment of the Fund's cash, pooled with the Council's cash, in 2015/16 for information.

Credit Score Analysis

Scoring:

Long-Term Credit Rating	**Score**
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating threshold of A- for investment counterparties.