

County Council

18 July 2017

Treasury Management Strategy 2017/18 - Amendment

Recommendation

That Council approves the lowering of the minimum rating of bond funds from A to A-

1 Introduction

- 1.1 In July 2014 the County Council began investing in the Columbia Threadneedle Social Bond Fund in order to earn an investment grade bond return for the County Council whilst providing a positive social outcome in the UK.
- 1.2 The portfolio is invested in 83 bonds from 60 issuers targeting investment across areas including Housing & Property, Health & Social Care, Transport & Communications, Utilities & the Environment, Financial Inclusion, Education, Employment & Training and Community Services.
- 1.2 Since this date the fund has performed very well for the County Council providing regular distributions of cash and capital appreciation. This is reflected in the County Council's budgeted cash return target. There have however been recent changes to the fund which need the approval of the Council to continue investing in the product. Table one below details fund performance to date.

Table 1 Columbia Threadneedle Social Bond Fund Total Annualised Performance

	1 Year	2 Year	3 Year
Performance (gross*)	8.4%	6.4%	7.2%

*Average fee level 0.4%

2 Recent Amendments to the Fund

- 2.1 The Council, along with other investors, had expressed concerns over the average duration of the Social Bond Fund portfolio given the recent levels of geopolitical uncertainty. As a result of this engagement Columbia Threadneedle began shortening the average duration from 6.8 years to 4.75

years in May 2017, which will reduce the volatility level of the fund and therefore add protection to investors in the event of unexpected interest rate rises.

- 2.2 As a result of this de-risking, Columbia Threadneedle have decided that they would like to lower the funds average rating to A- for the foreseeable future to ensure continued strong investment performance.
- 2.3 Whilst a rating of A- is still investment grade credit, the Council's existing Treasury Management Strategy Statement requires a bond fund to be rated at A, therefore to continue to support this fund the Council is asked to amend the existing strategy to permit an average rating of A-.
- 2.4 Officers have engaged with Columbia Threadneedle throughout the process and are satisfied with the overall credit quality of the underlying bonds in the portfolio and do not believe that the revision to average ratings place the Council under an undesirable level of risk. In the current market environment it is unlikely that A rated funds will achieve the level of performance going forward, moving to an A- minimum rating will improve the chances of achieving required returns.
- 2.5 The Social Bond Fund remains a daily priced fund meaning the Council is not tied into the fund over a long period of time. Should there be a wish to redeem the investment it could be arranged relatively quickly.

Background papers

None

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The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: None