

# London Treasury Liquidity Fund (LTLF)

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## Investment Strategy 2024-25

### 1. Background

1.1. This document sets out the investment strategy for the London Treasury Liquidity Fund (LTLF) for the financial year 2024-25.

### 2. Strategic Asset Allocation

2.1. The proposed strategic asset allocation for the investment strategy is as follows:

Asset type		Allocation	Gross expected return
Core liquidity WAL ≤ 60 days	Overnight liquidity	10%	SONIA
	Short-term deposits or investment grade debt	40%	SONIA
Medium-term	Senior RMBS Expected WAL ≤ 3.5 years	35%	SONIA + 30bps
	Strategic lending Expected WAL ≤ 5 years	5%	SONIA + 200bps
Long-term core balance	Other strategic investments	10%	SONIA + 300bps
<b>Total</b>		<b>100%</b>	<b>SONIA + 50bps</b>

### Glossary

RMBS:	Residential Mortgage-Backed Securities
SONIA:	Sterling Overnight Index Average rate
WAL:	Weighted Average Life
Gross expected return:	Expected gross return before fees and expenses incurred directly by LTLF

2.2. LTLF has the following objectives and risk profile:

#### Security of Capital

The portfolio 95% VaR (value at risk) should not exceed 2%.

The VaR will be assessed at least semi-annually using appropriate professional advice.

#### Liquidity

LTLF aims to meet all properly constituted withdrawal requests from its Limited Partners.

#### Yield

LTLF targets a net return of at least SONIA + 40 bps over a rolling three-year period.

### 3. Counterparty and Investment Limits

3.1. Table 1 sets out the range of specified and non-specified investments permitted by LTLF. Specified and non-specified investments are as defined in the Statutory Guidance on Local Government Investments issued by the Department for Levelling Up, Housing and Communities (DLUHC) under the Local Government Act 2003.

The following key applies:

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**S** = Specified (These are sterling investments with high credit quality and a maturity period of not more than 365 days, or those which could be for a longer period but where the lender has the right to be repaid within 365 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.)

**NS** = Non-Specified (Non-specified investments are any other type of investment. They normally offer the prospect of higher returns but carry a higher risk.)

- 3.2. LTLF will make best efforts to maintain at least 50% of all investments (or underlying investments) in the form of Specified Investments.

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**Table 1**

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure (see 3.3)
<b>Senior Unsecured Debt, e.g.</b> <ul style="list-style-type: none"> <li>• Deposits</li> <li>• Call Accounts</li> <li>• Notice Accounts</li> <li>• Certificates of Deposit</li> <li>• Loans</li> <li>• Commercial Paper</li> <li>• UK Gilts and T-Bills</li> <li>• All other senior unsecured bonds</li> </ul>	Issuer (and security where separately rated) Investment Grade (IG) defined per <b>Table 3</b>  OR  UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance)  OR  Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per <b>Table 2</b>	S	NS	Aggregate 100%, individual limits determined by <b>Table 5</b>
<b>Money Market Funds</b>	Fitch AAA <sub>mmf</sub> or above See <b>Table 3</b> for equivalents from other agencies  Daily liquidity	S	N/A	100%  Not more than 20% per fund
<b>Other Collective Investment Schemes e.g. Enhanced Cash Funds</b>	Fitch AAA <sub>f</sub> or equivalent from other agencies per <b>Table 3</b>	NS	N/A	20%
<b>Covered Bonds</b>	Bond rating Fitch AA <sub>sf</sub> or equivalent from other agencies per <b>Table 3</b>  AND	NS	NS	20%

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Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure (see 3.3)
	Issuer rated Fitch A- or above or equivalent from other agencies per <b>Table 3</b>			
<b>Repurchase Agreements (Repo)</b>	Counterparty meets senior unsecured criteria AND proposed collateral (Min 100%) itself meets permitted investment criteria  OR  Collateralisation is >102% with UK Gilts / T-Bills	S – UK gilts or T-Bills AND counterparty meets senior unsecured criteria  NS – other	<i>Not permitted</i>	S – 100%  NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria
<b>Senior UK Prime or Buy-to-Let Residential Mortgage-Backed Securities (RMBS)</b>	Bond rating Fitch AA <sub>sf</sub> or above or equivalent from other agencies per <b>Table 3</b>	NS	NS	35%
<b>Medium-Term Strategic Lending</b>	See <b>Section 5</b>	NS	NS	5%
<b>Other Strategic Investments</b>	See <b>Section 6</b>	NS	NS	10%

3.3. LTLF's assets under management ("AUM") can vary in the short-term as its Limited Partners deposit and withdraw their treasury funds in the normal course of business.

- For short-term core liquidity assets, exposure is measured against LTLF's AUM on the day.
- For medium and long-term assets, LTLF measures exposure against the forecast average daily AUM for the year ahead ("Forecast AUM") based on forecast cash-flows provided by its Limited Partners. The Forecast AUM is used to fix cash limits for the quarter ahead with such limits being recalculated at least quarterly. If revised forecast cash-flows are received during a quarter that adjust the Forecast AUM by more than 20%, then new cash limits will be set during that quarter.

## 4. Credit Ratings and Country Limits

4.1. Maximum direct exposures to non-UK financial institutions apply by country, based on the relevant sovereign ratings outlined in the table below:

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**Table 2 – Country Limits**

Max. Aggregate Exposure (%)	Fitch Sovereign Rating	S&P Sovereign Rating	Moody's Sovereign Rating
25	AAA	AAA	Aaa
15	AA+	AA+	Aa1
5	A	A	A

Note: for non-UK, non-financial institutions, or in circumstances such as an instrument being issued through a subsidiary domiciled in one country but guaranteed or otherwise secured by a parent in another, the risks and appropriate country limit (if any, in the case of multinational corporations) in which to aggregate the exposure will be considered on a case-by-case basis and determined by the relevant portfolio manager.

4.2. Table 3 sets out the range of investment grade ratings used by LTLF and its portfolio managers.

**Table 3 – Permitted Credit Ratings and Equivalence Mappings**

<b>Issuer and/or Senior Unsecured Bond Ratings</b>					
<b>Long-term</b>			<b>Short-term</b>		
<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2
<b>Structured Finance Ratings</b>					
<b>Fitch</b>	<b>Moody's</b>		<b>S&amp;P</b>		
AAA <sub>sf</sub>	Aaa (sf)		AAA (sf)		
AA+ <sub>sf</sub>	Aa1 (sf)		AA+ (sf)		
<b>Money Market Fund Ratings</b>					
<b>Fitch</b>	<b>Moody's</b>		<b>S&amp;P</b>		
AAA <sub>mmf</sub>	Aaa-mf		AAA <sub>m</sub>		
<b>Other Permitted Fund Ratings</b>					
<b>Fitch</b>	<b>Moody's</b>		<b>S&amp;P</b>		
AAA <sub>f</sub>	Aaa-bf		AAA <sub>f</sub>		

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- 4.3. For core liquidity investments, lower ratings are balanced by higher ones in order to maintain a credit risk on rated instruments that is no greater than a 12-month deposit with an AA- institution. This is determined by assigning a credit factor to each rated investment per Table 4 and calculating a weighted average portfolio credit factor (PCF). This must remain below 5 and no single instrument may exceed 10.

**Table 4 – Credit Factors**

<b>Credit Factors based on Issuer Default Rating (Fitch and Fitch Equivalents)</b>									
<b>Use instrument rating or if not rated, rating of Issuer</b>									
<b>Days</b>	<b>AAA</b>	<b>AA+</b>	<b>AA</b>	<b>AA-</b>	<b>A+</b>	<b>A</b>	<b>A-</b>	<b>BBB+</b>	<b>BBB</b>
<b>O/N</b>	0.01	0.01	0.01	0.01	0.02	0.03	0.04	0.07	0.10
<b>2-7</b>	0.02	0.04	0.06	0.10	0.15	0.20	0.30	0.50	0.80
<b>8-30</b>	0.10	0.15	0.25	0.40	0.60	0.75	1.30	2.10	3.50
<b>31-60</b>	0.20	0.30	0.50	0.80	1.20	1.50	2.60	4.20	7.00
<b>61-90</b>	0.25	0.50	0.75	1.25	1.50	2.50	5.00	7.50	10.00
<b>91-120</b>	0.35	0.65	1.00	1.50	2.30	3.30	6.60	10.00	13.50
<b>121-150</b>	0.40	0.80	1.25	2.10	2.90	4.20	8.30	12.50	16.50
<b>151-180</b>	0.50	1.00	1.50	2.50	3.50	5.00	10.00	15.00	20.00
<b>181-210</b>	0.60	1.20	1.75	3.00	4.00	5.80	11.70	17.50	23.50
<b>211-240</b>	0.70	1.30	2.00	3.30	4.70	6.60	13.30	20.00	27.00
<b>241-270</b>	0.75	1.50	2.25	3.75	5.25	7.50	15.00	22.50	30.00
<b>271-300</b>	0.80	1.70	2.50	4.20	5.80	8.30	16.70	25.00	33.50
<b>301-330</b>	0.90	1.85	2.75	4.60	6.50	9.20	18.50	27.50	37.00
<b>331-397</b>	1.00	2.00	3.00	5.00	7.00	10.00	20.00	30.00	40.00
<b>398-730</b>	2.70	5.30	8.00	13.00	19.00	27.00	43.00	69.00	106.00

- 4.4. For the purposes of the above, UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) securities are treated as the long-term UK Sovereign rating, reflecting the UK's highly centralised and interdependent public finance regime.
- 4.5. Exposure limits to individual counterparties are determined by the colour bands assigned under the Colour Banding Methodology supplied by Link Asset Services.

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**Table 5 – Concentration Limits**

<b>Cash Exposure Limits – applied to individual counterparties</b>		
<b>Band</b>	<b>Overnight</b>	<b>&gt; 1 day</b>
<b>UK Sovereign</b> (see 4.7)	100%	100%
<b>UK Local Authorities</b> (see 4.7)	10%	10%
<b>Yellow</b>	20%	20%
<b>Purple</b>	20%	15%
<b>Orange</b>	15%	15%
<b>Red</b>	15%	10%
<b>Green</b>	10%	5%
<b>No Colour</b>	5%	5%

4.6. The bands above are calculated based on a range of credit ratings data, including published rating watches and outlooks.

4.7. Exposure to an individual counterparty in the UK Sovereign band has been set at 100% to cater for a severe market disruption scenario when all funds might be best placed with a UK Government institution. Notwithstanding their UK Sovereign status, Local Authorities' cash-flows may be temporarily stressed. Following the principles of good portfolio management and diversification, cash exposure to an individual Local Authority is limited to 10% of LTLF's AUM.

## 5. Medium-Term Strategic Lending

5.1. Medium-term strategic lending is a portfolio of individual lending or financing transactions seeking to earn higher returns than the core liquidity or RMBS assets but with a low risk of capital impairment.

5.2. Such opportunities may involve situations where market capacity may be limited or restricted despite ample security being available or where flexibility is sought by the borrower e.g. around early repayment without penalty. An example transaction would be the provision of secured loan finance to an investment fund.

Gross expected return	SONIA + 200bps
Concentration risk	No individual medium-term strategic lending investment to exceed 3% of LTLF's Forecast AUM at the point of commitment

5.3. The expected WAL of medium-term strategic lending will not exceed 5 years.

5.4. Medium-term strategic lending will be secured on assets or cash-flows except where the borrower is (or is guaranteed by) an investment-grade counterparty (Fitch BBB or better, see Table 3) or a public body with credible sovereign support.

## 6. Long-Term Core Balance – Other Strategic Investments

6.1. In general terms, the other strategic investments allocation is seeking returns similar to those expected of a well-funded institutional pension fund.

Gross expected return	SONIA + 300bps
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6.2. The other strategic investments allocation will be deployed on a best ideas basis across a range of asset classes, seeking investments anticipated to achieve the expected return and demonstrate a level of volatility that will keep the overall expected VaR within the limit set in Section 2.2 above.

6.3. The following limits will apply to the other strategic investments allocation:

Criteria	Limit
Overall expected portfolio volatility	95% VaR $\leq$ 2%
Concentration risk	No individual other strategic investment to exceed 3% of LTLF's Forecast AUM at the point of commitment
Sector diversification	
Infrastructure (debt and equity)	< 50% of other strategic investments allocation
Real estate (debt and equity)	< 50% of other strategic investments allocation
SME (debt and equity)	< 50% of other strategic investments allocation
Other debt and equity (public and private)	< 50% of other strategic investments allocation

6.4. LTLF will not directly hold land or property.

6.5. While the other strategic investments allocation is made up of medium to longer term investments, liquidity remains important. Investments will be managed to ensure a regular flow of capital distributions, and where funds lack contractual redemption windows or other clear options to exit, the expected final maturity dates will be appropriately diversified.

Investments capable of redemption or sale on a recognised market within 12 months plus expected capital distributions from other strategic investments within 12 months	> 25% of other strategic investments allocation
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6.6. LTL may seek the approval of the Alternative Investment Fund Manager (AIFM) and the Limited Partners' Advisory Committee (LPAC) of LTLF in relation to new investment opportunities under the other strategic investments and medium-term strategic lending allocations, where such new investment opportunities are in a new fund or in a new product (the Reserved Investment Decisions).

## 7. Hedging

7.1. Investments denominated in foreign currency may be made under the medium-term strategic lending and other strategic investments allocations, provided that any currency risk is captured in the regular VaR analysis of LTLF and where necessary or desirable, such investments are hedged into sterling within the investment itself or with an overlay, with the related terms and level of hedging to be determined by LTLF after consultation with the LPAC.

7.2. Any portfolio managers undertaking hedging will be required to maintain appropriate policies on the use of hedging instruments, which must provide that any credit or liquidity risk arising from such instruments is limited to counterparties that meet the criteria of LTLF's core liquidity allocation.

7.3. The denomination of Limited Partners' investment in LTLF will always be sterling.



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## **8. Investment Limit Exceptions**

- 8.1. Any active exception (i.e. an exception due to an action by a portfolio manager) to the investment limits set out in the investment strategy requires the prior approval of the AIFM and the LPAC.
- 8.2. Where passive exceptions (i.e. exceptions due to changes in the value of the portfolio) to the investment limits set out in the investment strategy occur, they will be reported to the Investment Committee of LTL and to the AIFM. Any rebalancing of the portfolio in the event of passive exceptions will be at the discretion of the Chief Investment Officer of LTL (or such officer's designated deputy, in cases of absence).

## **9. Environmental Social and Governance (ESG) Considerations**

- 9.1. LTLF's investment portfolio will be managed in accordance with the GLA Group Responsible Investment Policy.