Item: 6

Investments Sub-committee: 24 February 2022.

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 2021.

2. Recommendation

The Sub-committee is invited to note:

2.1.

The status of the temporary loan portfolio as at 31 December 2021, as detailed in section 3 of this report.

2.2.

That, for the period 1 April to 31 December 2021, the temporary loans portfolio made a return of £50,250.43 at an average interest rate of 0.21%.

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 2021 totalled £29,886,072. 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 31 December 2021:

- £3,000,000 invested with National Westminster Bank at a rate of 0.82%.
- £4,900,000 invested with Insight Liquidity Fund, with an average net yield of 0.12%.
- £1,000,000 recalled from Insight Liquidity Fund.

- £3,800,000 invested with Aberdeen Standard Investments Liquidity Fund, with an average net yield of 0.08%.
- £7,700,000 recalled from Aberdeen Standard Investments Liquidity Fund.

3.3.

The value of the temporary loans stood at £26,984,676 as at 31 January 2022.

4. Rate of Return

4.1.

For the period 1 April to 31 December 2021, the temporary loans returned an average interest rate of 0.21%, which equates to a return of £50,250.43.

4.2.

By comparison, the equivalent 90-day London Inter-Bank Offered Rate of 0.26% is considered to be the target.

4.3.

With inflation quoted at 5.4% for December 2021 based on Consumer Price Index (7.5% Retail Price Index), the return on temporary loans equates to a relative loss in value of 5.2% 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 2021, attached as Appendix 2 to this report, indicates that the Council is performing behind the weighted average rate of return of the benchmarking group and ahead of the Scottish Unitary Authorities.

5. 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.

6. Financial Implications

6.1.

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

6.2.

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.

7. 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.

8. Contact Officers

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Shonagh Merriman, Interim Corporate Finance Senior Manager, extension 2105, Email shonagh.merriman@orkney.gov.uk.

9. Appendices

Appendix 1: Link Asset Services Monthly Investment Analysis Review for December 2021.

Appendix 2: Link Asset Services Investment Portfolio Benchmarking Analysis for December 2021.

Appendix 1

LINK Group

Orkney Islands Council

Monthly Investment Analysis Review

December 2021

Monthly Economic Summary

General Economy

The Flash (i.e. provisional) Manufacturing PMI dropped to a 3-month low of 57.6 in December from 58.1 in November, in line with market expectations. Notably, the Backlogs of Work sub-index dipped from 58.6 to 51.8 in December, signalling the slowest accumulation of work-in-hand since February. This was helped by reduced pressure on supply chains, as signalled by the least marked lengthening of delivery times for 12 months. The Flash Services PMI, meanwhile, fell more sharply to 53.2 in December, down from 58.5 in November, missing market forecasts of 57.0. This reading signalled a sharp slowdown in service sector growth to the lowest since February, amid reports of a negative impact on customer demand from Omicron variant restrictions. However, underlying components did suggest that rising employment levels contributed to the slowest accumulation of unfinished work since March while input cost inflation also eased from record highs. As a result of the fall in the Services PMI, the Flash Composite PMI (which incorporates both sectors), dropped to 53.2 in December from 57.6 in November, missing market expectations of 56.4. Meanwhile, the Construction PMI (which is released one month behind), rose to 55.5 in November from 54.6 in October and well ahead of market expectations of 54.2. This indicated a robust and accelerated expansion of overall construction activity.

By expanding just 0.1% m/m compared to expectations of a 0.4% gain, GDP data for October suggested that economic growth was anaemic even before the contemplation of COVID restrictions being re-introduced following the discovery of the Omicron variant in November. For the second month in a row, this weakness was evident in the breakdown of GDP, which confirmed that the biggest contributor to growth came from a 2.6% rise in health output as more people visited their GP. Absent this growth, GDP would have contracted during the month. Foreign trade continued to drag on GDP, although the UK’s trade deficit did narrow to £2.03 billion in October from September’s eight-month high of GBP 2.78 billion. Both exporters and importers reported challenges emanating from Brexit, the pandemic, rising energy prices and supply chain disruption.

Whilst employment rose by 149,000 in the three months to October, more notable was that employment fell by 143,000 during the single month of October, following the end of the furlough scheme. Combined with the rise of 78,000 in unemployment reported in the month (which left the unemployment rate at 4.2%), this suggests that there was some modest deterioration in the labour market following the scheme’s end. However, the fall of 49,800 in the number of people claiming unemployment benefits and the 275,000 rise in the PAYE measure of company payrolls both observed in November suggests that the deterioration was short-lived. The rise in the number of vacancies from 1.18m to a record 1.22m in the three months to November also suggests that the supply of labour struggled to keep pace with demand during the period. Against this backdrop, average weekly earnings including bonuses increased 4.9% y/y in the three months to October, the smallest gain in seven months but above market forecasts of 4.6%.

UK inflation, as measured by the Consumer Price Index (CPI), jumped to 5.1% y/y in November from 4.2% in October, reaching its highest rate since December 2011. In the process, the CPI exceeded both market forecasts of 4.7% and the Bank of England’s own forecast of 4.5% made in November’s Monetary Policy Report. Much of the increase was driven by rising energy prices, supply chain disruptions and a low base effect from last year. Whilst some of these effects were due to one-off factors, rises in food prices, housing rents and second hand car prices provided evidence of more persistent price pressures. Ultimately, these signs of “greater persistence in domestic costs and price pressures” saw the Monetary Policy Committee (MPC) raise Bank Rate to 0.25% during the month. Although this move was in keeping with Link’s forecasts, it surprised the market, which had expected the MPC to delay raising rates until it had greater clarity surrounding the impact

of the Omicron variant on economic growth.
Retail sales, meanwhile, rose 1.4% m/m in November, exceeding forecasts of a 0.8% increase, with retailers noting strong trading related to "Black Friday". Reports also suggested that worries about shortages and shipping delays prompted some households to do their Christmas shopping early. Despite this rise, sales remained 0.7% lower than a year ago. The outsized monthly gain in retail sales was followed by a 1 point fall in the GFK Consumer Confidence index to -15 in December amid concerns over the Omicron variant.
Although public sector net borrowing fell to £17.4bn in November from £18.8bn in October, it exceeded both market forecasts of £16.0bn and the OBR's forecast of £14.2bn. This was reportedly due to an increase in debt interest costs and additional spending on both the NHS Test and Trace and vaccine booster programmes. As a result, borrowing reached £136.0 billion in the financial year-to-November, £115.8 billion less than in the same period in 2020 but almost triple three times its level during April-November 2019.
The US economy added just 210,000 jobs in November, well below market expectations of 550,000, as employers continued to report difficulties in hiring and retaining workers amid a strong economic recovery. This saw the unemployment rate fall to 4.2% in November, the lowest since February 2020 and well below market expectations of 4.5%. The US economy grew by an annualised 2.3% during Q3 2021, slightly higher than 2.1% according to the second estimate and following a 6.7% expansion in Q2. Against this backdrop, price growth (as measured by the Federal Reserve's preferred Personal Consumption Expenditure deflator) reached 5.7%y/y in November, well ahead of the Fed's 2% target. These "inflation developments and the further improvement in the labour market" saw the Federal Reserve signal during its December meeting (via its "dot plot" chart outlining individual member expectations) that it may raise rates (from 0-0.25% currently) three times in 2022 and 2023 and twice more in 2024. The Fed also announced plans to accelerate its QE taper, which would see the current programme of bond purchases end in March.
The Eurozone economy advanced 2.2% q/q in Q3 2021, following upwardly revised 2.2% growth in Q2, matching initial estimates. The final reading of inflation for November confirmed an increase to 4.9% y/y from 4.1% in October, representing the highest reading since July 1991 but in line with preliminary estimates. While energy prices (which rose 27.5% y/y) accounted for much of the rise, core inflation (which excludes energy, food, alcohol and tobacco) also reached a record high 2.6% rate. Although the ECB reiterated at its December meeting that the rise in inflation was expected to be transitory, the central bank announced that it would reduce the pace of its asset purchases under its €1.85 trillion PEPP next quarter and wind down the scheme in March 2022, citing progress on economic recovery and towards its medium-term inflation target.

Housing

The Halifax reported that house prices rose 1% m/m in November whilst Nationwide reported the same monthly gain in December. This left prices 8.2% and 10.4% higher than a year ago respectively.

Currency

The MPC's unexpected Bank Rate rise helped Sterling gain ground against both the US Dollar and the Euro this month.

December	Start	End	High	Low
GBP/USD	$1.3318	$1.3497	$1.3497	$1.3208
GBP/EUR	€1.1750	€1.1911	€1.1911	€1.1663

Forecast

Link Group left its forecast for Bank Rate unchanged in December.

Bank Rate	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Link Group	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	-	-

Orkney Islands Council

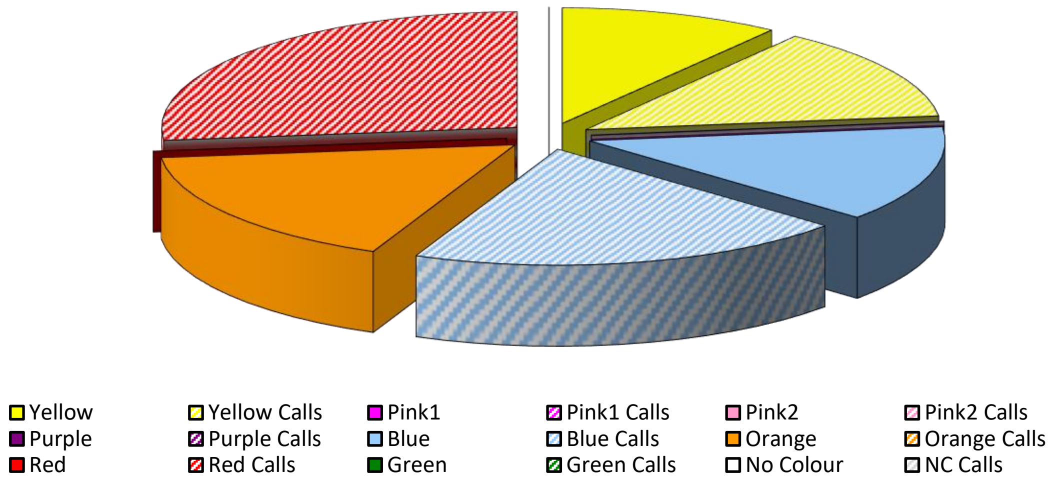
Current Investment List

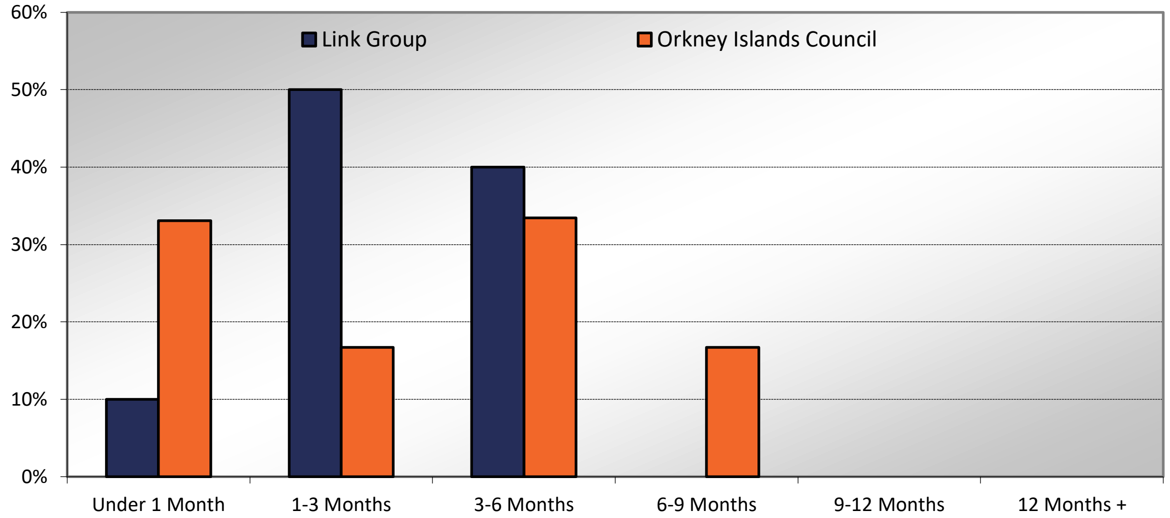
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
The Royal Bank of Scotland Plc (RFB)	5,986,072	0.01%		Call	A	0.000%
MMF Aberdeen Standard Investments	3,900,000	0.03%		MMF	AAAm	
Santander UK PLC	2,000,000	0.38%		Call46	A	0.006%
National Westminster Bank Plc (RFB)	3,000,000	0.14%	09/06/2021	09/03/2022	A	0.009%
Santander UK PLC	2,000,000	0.38%		Call104	A	0.013%
Santander UK PLC	4,000,000	0.38%		Call135	A	0.017%
National Westminster Bank Plc (RFB)	1,000,000	0.16%	19/05/2021	18/05/2022	A	0.018%
Warrington Borough Council	3,000,000	0.10%	09/06/2021	08/06/2022	AA-	0.010%
Toronto Dominion Bank	2,000,000	0.40%	10/12/2021	04/08/2022	AA-	0.014%
Toronto Dominion Bank	3,000,000	0.20%	06/09/2021	02/09/2022	AA-	0.016%
Total Investments	**£29,886,072**	**0.18%**				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





Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

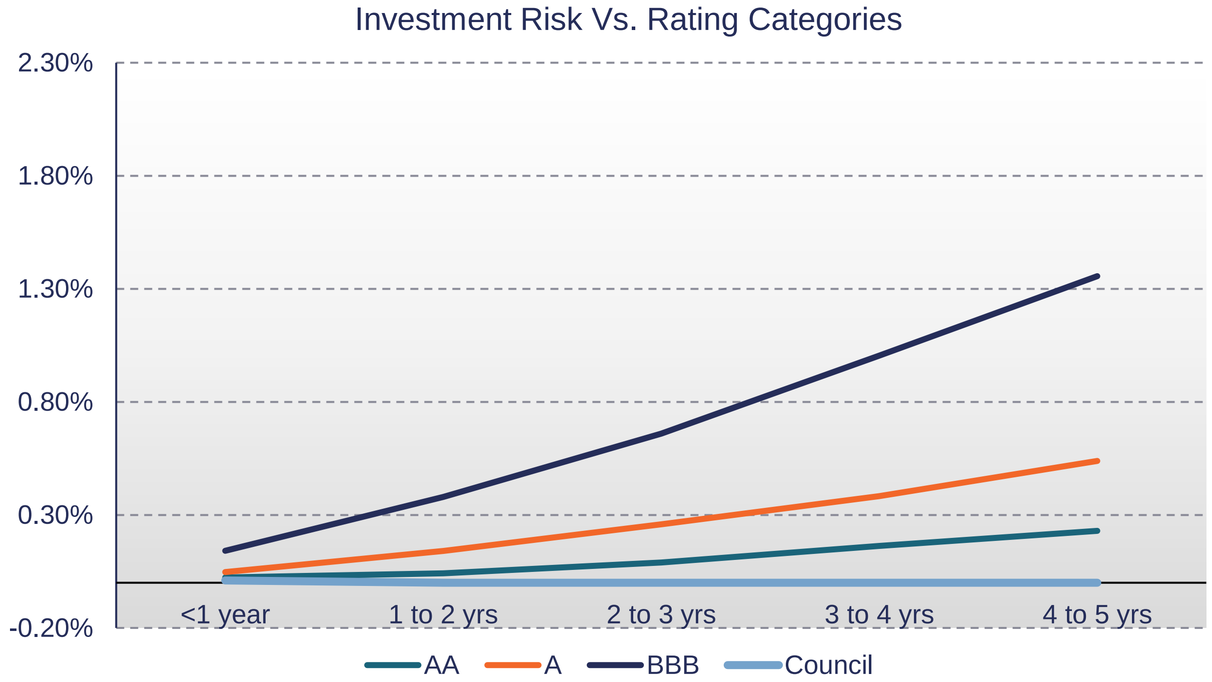
Portfolios weighted average risk number = 3.24

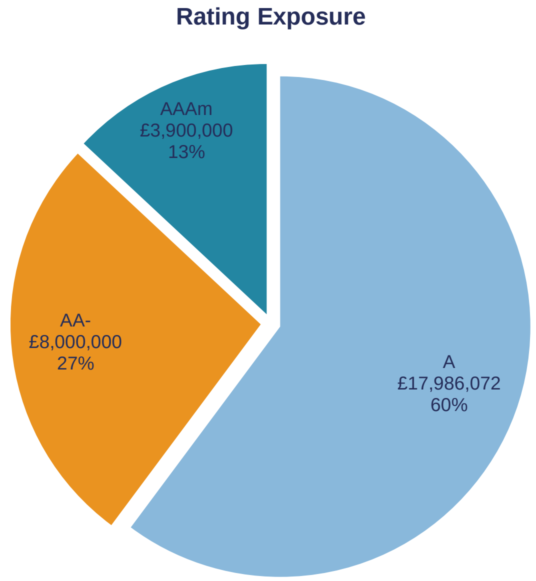
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	23.09%	£6,900,000	56.52%	£3,900,000	13.05%	0.06%	69	158	159	364
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	33.41%	£9,986,072	59.94%	£5,986,072	20.03%	0.06%	34	118	86	296
Orange	16.73%	£5,000,000	0.00%	£0	0.00%	0.28%	233	311	233	311
Red	26.77%	£8,000,000	100.00%	£8,000,000	26.77%	0.38%	105	105	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%	**£29,886,072**	**59.85%**	**£17,886,072**	**59.85%**	**0.18%**	**95**	**156**	**166**	**319**

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%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%
Council	0.01%	0.00%	0.00%	0.00%	0.00%

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
03/12/2021	1862	Norddeutsche Landesbank Girozentrale	Germany	The Support Rating was withdrawn. At the same time all other ratings were affirmed.
22/12/2021	1867	Bank of Montreal	Canada	The Support Rating was withdrawn. At the same time all other ratings were affirmed.

Orkney Islands Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
10/12/2021	1863	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was upgraded to 'Ba3' from 'B2'.

Orkney Islands Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
15/12/2021	1864	Standard Chartered Bank	United Kingdom	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time all other ratings were affirmed.
16/12/2021	1865	Danske A/S	Denmark	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Outlook on the Long Term Rating was changed to Negative from Stable and all other ratings were affirmed.
16/12/2021	1866	Credit Industriel et Commercial	France	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Short Term Rating was affirmed.

Appendix 2

Orkney Islands Council

Investment Portfolio Benchmarking Analysis

December 2021

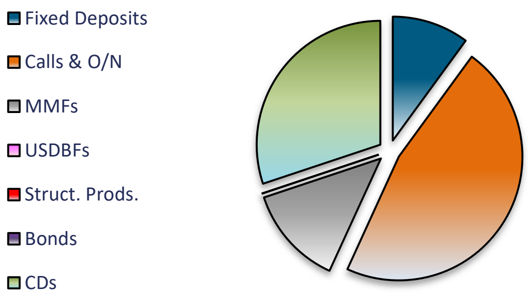
Group Members:
Aberdeen City Council
Aberdeenshire Council
Angus Council
Clackmannanshire Council
Highland Council
Midlothian Council
Orkney Islands Council
Perth & Kinross Council

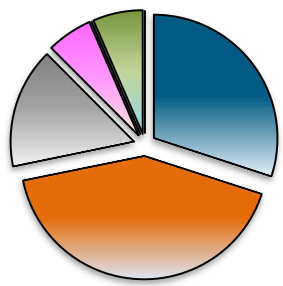
Orkney Islands Council

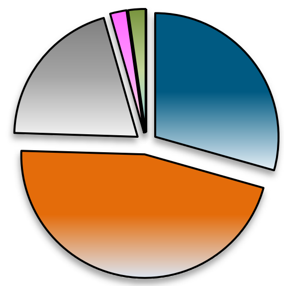
Summary Sheet

	Orkney Islands Council	Benchmarking Group 6 (8)	Scottish Unitary Authorities (23)
		Basic Portfolio Characteristics	
WARoR	0.18%	0.27%	0.17%
WAM	95	84	61
WATT	156	150	105
WA Credit Risk	3.24	3.69	3.58
Model WARoR	0.17%	0.19%	0.15%
Difference	0.01%	0.08%	0.02%
Model Band	0.13% - 0.21%	0.15% - 0.23%	0.11% - 0.19%
Performance	Inline	Above	Inline

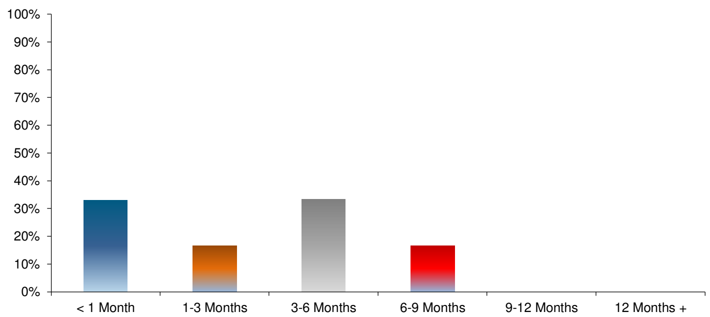
Asset Breakdown

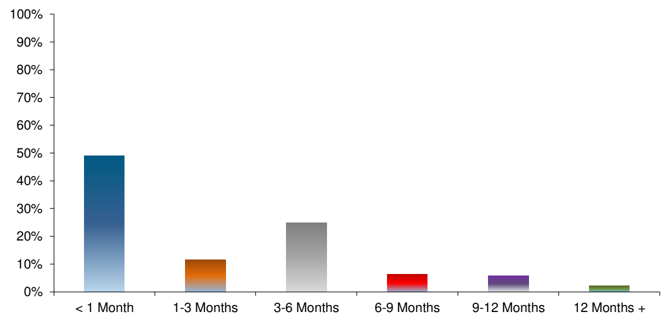


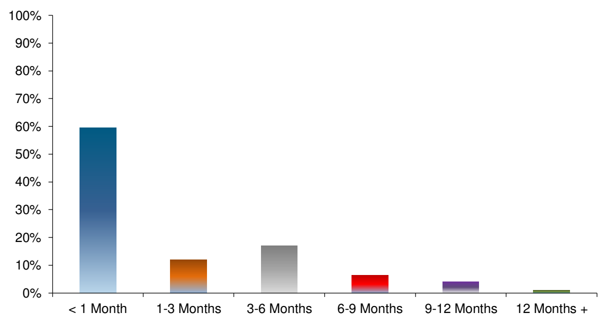




Maturity Profiles

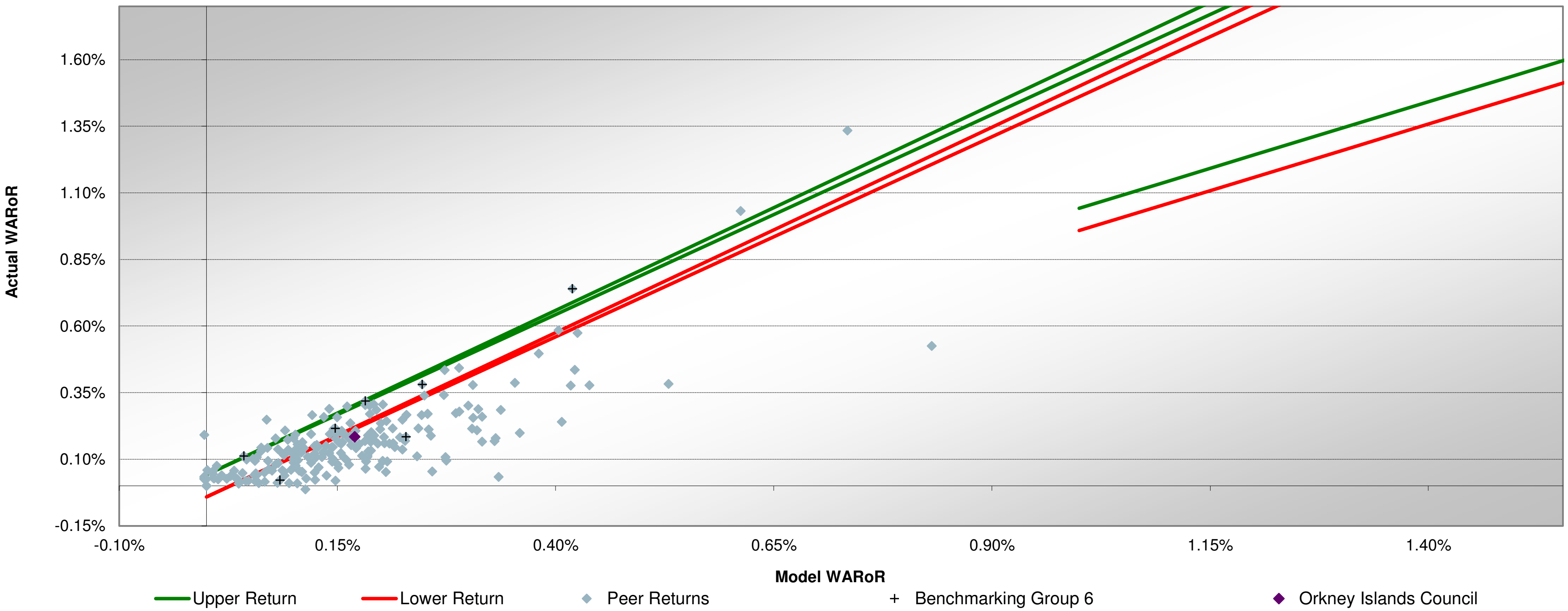






Orkney Islands Council

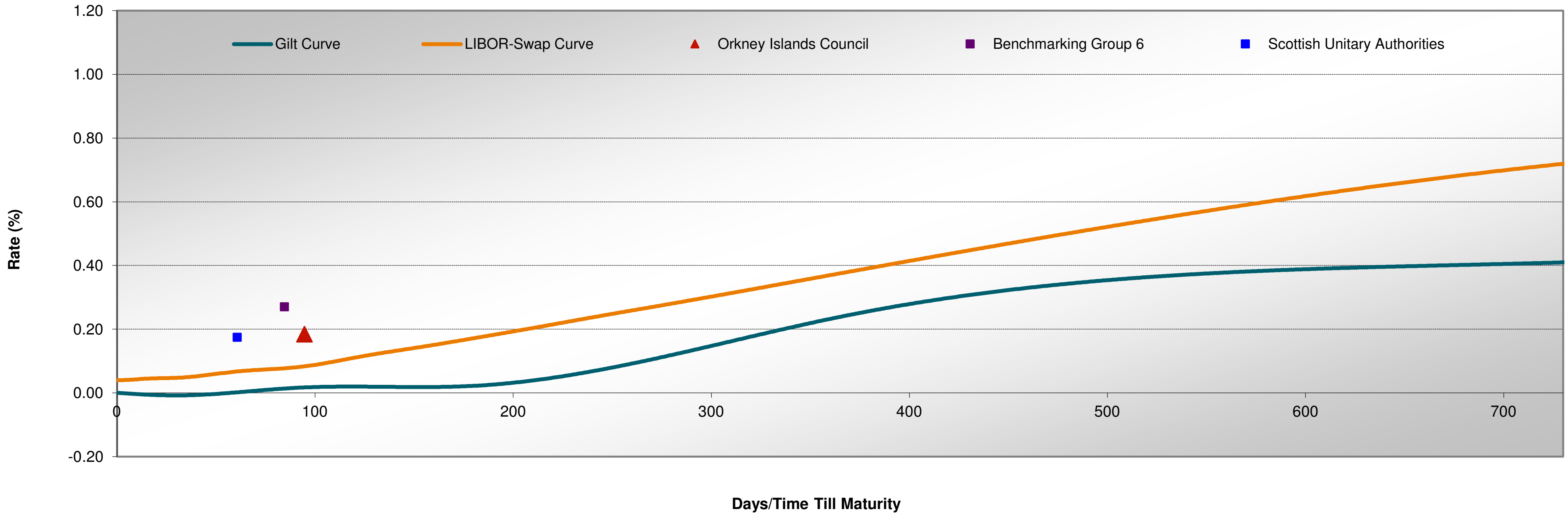
Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Orkney Islands Council	0.18%	0.17%	0.01%	0.13%	0.21%	Inline

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	0.18%	95	156	3.24	0.02%	0.08%	0.17%	0.10%	0.13% - 0.21%	Inline
Benchmarking Group 6	0.27%	84	150	3.69	0.01%	0.08%	0.26%	0.19%	0.15% - 0.23%	Above
Scottish Unitary Authorities	0.17%	61	105	3.58	0.00%	0.07%	0.17%	0.11%	0.11% - 0.19%	Inline

Orkney Islands Council

Peer Comparison

	Orkney Islands Council	Benchmarking Group 6 (8)		Scottish Unitary Authorities (23)		Population Average (219)	
Basic Characteristics							
Principal	£29,886,072	£106,204,787		£79,818,767		£113,161,610	
WARoR	0.18%	0.27%		0.17%		0.17%	
WAM	95	84		61		73	
WATT	156	150		105		136	
WA Credit Risk	3.24	3.69		3.58		3.12	
Portfolio Breakdown							
Fixed Deposits	10.04%	30.00%	6	29.38%	15	44.70%	188
Calls & O/N	46.80%	41.77%	8	46.10%	21	28.53%	195
MMFs	13.05%	15.76%	6	20.09%	14	23.70%	165
USDBFs	0.00%	5.96%	2	2.16%	3	1.13%	20
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.15%	5
Bonds	0.00%	0.00%	0	0.00%	0	0.26%	7
CDs	30.11%	6.51%	3	2.26%	3	1.54%	15
Institution Breakdown							
Banks	76.91%	68.53%	8	61.84%	21	48.44%	207
Building Socs.	0.00%	0.00%	0	4.68%	4	6.47%	74
Government	10.04%	9.76%	4	11.22%	8	19.64%	124
MMFs	13.05%	15.76%	6	20.09%	14	23.73%	165
USDBFs	0.00%	5.96%	2	2.16%	3	1.13%	20
MLDBs	0.00%	0.00%	0	0.00%	0	0.01%	1
Other	0.00%	0.00%	0	0.00%	0	0.58%	15
Domestic/Foreign Exposure							
Domestic	70.22%	70.68%	8	74.12%	21	69.15%	214
Foreign	16.73%	7.60%	4	3.62%	5	5.99%	72
MMFs	13.05%	15.76%	6	20.09%	14	23.74%	165
USDBFs	0.00%	5.96%	2	2.16%	3	1.13%	20
Maturity Structure							
< 1 Month	33.08%	49.03%		59.56%		52.33%	
1-3 Months	16.73%	11.65%		11.94%		17.20%	
3-6 Months	33.46%	24.93%		17.00%		19.32%	
6-9 Months	16.73%	6.33%		6.42%		5.36%	
9-12 Months	0.00%	5.81%		4.11%		4.22%	
12 Months +	0.00%	2.25%		0.97%		1.57%	

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	10.04%	0.10%	159	364		30.00%	0.41%	114	245	6		29.38%	0.29%	89	174	15
Calls	46.80%	0.22%	60	60		41.77%	0.23%	61	61	8		46.10%	0.17%	39	39	21
Overnight	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		0.00%	0.00%	0	0	0
MMFs	13.05%	0.03%	0	0		15.76%	0.03%	0	0	6		20.09%	0.03%	0	0	14
USDBFs	0.00%	0.00%	0	0		5.96%	0.07%	0	0	2		2.16%	0.12%	0	0	3
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	30.11%	0.22%	168	304		6.51%	0.29%	87	129	3		2.26%	0.29%	30	45	3
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	76.91%	0.22%	102	156		68.53%	0.24%	90	120	8		61.84%	0.18%	56	74	21
Building Socs.	0.00%	0.00%	0	0		0.00%	0.00%	0	0	0		4.68%	0.08%	11	24	4
Government	10.04%	0.10%	159	364		9.76%	0.71%	122	279	4		11.22%	0.56%	73	163	8
MMFs	13.05%	0.03%	0	0		15.76%	0.03%	0	0	6		20.09%	0.03%	0	0	14
USDBFs	0.00%	0.00%	0	0		5.96%	0.07%	0	0	2		2.16%	0.12%	0	0	3
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	70.22%	0.19%	79	148		70.68%	0.33%	98	178	8		74.12%	0.20%	71	124	21
Foreign	16.73%	0.28%	233	311		7.60%	0.15%	94	121	4		3.62%	0.17%	39	52	5
MMF	13.05%	0.03%	0	0		15.76%	0.03%	0	0	6		20.09%	0.03%	0	0	14
USDBFs	0.00%	0.00%	0	0		5.96%	0.07%	0	0	2		2.16%	0.12%	0	0	3
Sovereign State Breakdown																
UK	70.22%	0.19%	79	148	UK	70.68%	0.33%	98	178	8	UK	74.12%	0.20%	71	124	21
CAN	16.73%	0.28%	233	311	CAN	4.45%	0.15%	90	107	3	CAN	1.74%	0.07%	44	53	4
					SING	1.68%	0.02%	13	16	1	QAT	0.59%	0.02%	4	5	1
					AUS	1.47%	0.04%	25	55	2	SING	0.58%	0.01%	4	6	1
											AUS	0.51%	0.01%	9	19	2
											UAE	0.20%	0.01%	10	16	1
Sovereign Rating Breakdown																
AA-	70.22%				AA-	70.68%					AA-	74.71%				
AA+	16.73%				AA+	4.45%					AA+	1.74%				
					AAA	3.15%					AAA	1.10%				
											AA	0.20%				

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