NON-SPECIFIED INVESTMENTS

Investment	(A) Why Use It? (B) Associated Risks?	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating **	Capital Expenditure?	Circumstance of Use	Max % of Overall Investments	Maximum Maturity of Investment
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A)(i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B)(i) Liquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Yes-varied	No	In-house	100%	*3 years*
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A)(i) Although in theory tradable, are relatively illiquid. (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	Yes-varied	No	To be used by fund managers	80%	*3 years*
UK government gilts with maturities in excess of 1 year	(A)(i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	No	External cash fund managers only subject to the management agreement	50%	*10 years*

Investment	(A) Why Use It? (B) Associated Risks?	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating **	Capital Expenditure?	Circumstance of Use	Max % of Overall Investments	Maximum Maturity of Investment
Sovereign issues ex UK govt gilts : any maturity	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	AAA	No	External cash fund managers subject to the management agreement	50%	*10 years*
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A)(i) Known rate of return over period the monies are invested ~ aids forward planning. (B)(i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	YES-varied	No	To be used in-house	50%	*3 years*
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government	(A)(i) Excellent credit quality. (ii) Relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA / government guaranteed	No	External cash fund managers only, subject to the management agreement	80%	*3 years*

Investment	(A) Why Use It? (B) Associated Risks?	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating **	Capital Expenditure?	Circumstance of Use	Max % of Overall Investments	Maximum Maturity of Investment
Bonds issued by multilateral development banks	(A)(i) Excellent credit quality. (ii) Relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity). (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA or government guaranteed	No	External cash fund managers only, subject to the management agreement	80%	*3 years*

* **The prohibition on the use of derivatives** : This prohibition effectively relies on the judgement of the House of Lords in the case of Hazell v The Council of the London Borough of Hammersmith and Fulham and Others in 1991. Their Lordships held that local authorities have no power to enter into interest rate swaps and similar instruments.

Sector believes that as this ruling still stands and will not be rescinded by the introduction of the Local Government Act 2003, local authorities will not have the power to use derivative instruments.