TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY ~~2024/25~~2025/26

1 SUMMARY

1.1 This Treasury Management Strategy (TMS) ~~2024/25~~2025/26 comprises the:

(i) Investment Strategy;

(ii) Borrowing Strategy;

(iii) Liquidity Strategy; and

(iv) Risk Management Strategy.

2 BACKGROUND

2.1 The TMS ~~2024/25~~2025/26 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the ‘Treasury Management Code’) issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2021;

(ii) the Prudential Code for Capital Finance in Local Authorities (the ‘Prudential Code’) issued by CIPFA and last updated in 2021; and

(iii) the Statutory Guidance on Local Government Investments (the ‘Investments Guidance’) issued by the Department for Levelling Up, Housing and Communities (DLUHC), formerly known as the Ministry of Housing, Communities and Local Government, last updated in 2018, with respect to treasury investments.

2.2 This strategy will be updated at least annually and submitted for the approval of the Finance Committee.

2.3 All references to ‘investments’ in the TMS ~~2024/25~~2025/26 refer to investments held for treasury management purposes only and do not cover non-treasury or non-financial assets related investments.

3 POLICIES AND DELEGATIONS

3.1 The TMS ~~2024/25~~2025/26 will be implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments.

3.2 The arrangements for the implementation, execution, operation and administration of the TMS ~~2024/25~~2025/26, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer[1], Director of Corporate Finance and Group Treasurer, with the exception of the matters specified in 3.3, provided no decision contravenes the TMS ~~2024/25~~2025/26, the Treasury Management Policies, or the TfL Group Policy Relating to the Use of Derivative Investments.

3.3 With respect to the investment of cash balances, the Investment Strategy contained within the TMS ~~2024/25~~2025/26 will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG). LTM and LTIG will each determine and apply their own investment strategy which will better meet their individual requirements in respect of its investment of cash balances, subject to such strategies and policies and any deviations from or changes to any of them being approved in advance, from time to time, by the Corporate Finance Director or Group Treasurer.

3.4 With respect to ~~-~~Places for London Limited (Places for London),~~-~~ Places for London's~~'~~ borrowing, investment and liquidity strategies and its banking and cash management will be subject to such strategies and banking and cash management related provisions set out in any Finance Committee approved Places for London Treasury Management Strategy.

4 STRATEGIC OBJECTIVES

4.1 The objectives underpinning the TMS ~~2024/25~~2025/26 are:

(i) to ensure that sufficient cash and liquidity facilities are available to enable TfL to discharge its financial obligations when they become due, in accordance with approved budgets;

(ii) to undertake treasury management operations with primary regard for the security and liquidity of capital invested;

(iii) to maximise the yield from investments consistent with the security and liquidity objectives identified above;

(iv) to undertake treasury management activities having regard to Prudential Indicators (including Treasury Management Indicators) and to remain at all times within the Authorised Limit for external borrowings;

(v) to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money;

[1] References to managing Chief Finance Officer in this document mean the managing (non-statutory) Chief Finance Officer.

(vi) to support TfL's commitment to maintaining its credit rating relative to that of the UK Government as it recognises the value of its strong credit rating; and

(vii) to use TfL subsidiaries' statutory power relating to risk management to manage financial market risks across TfL, with the primary objective of reducing volatility or increasing certainty in the Business Plan and achieving greater value for money through reducing costs or protecting revenues.

5 INVESTMENT STRATEGY

5.1 The Investment Strategy will be applied in accordance with the strategic objectives listed in 4.1.

5.2 TfL maintains a low-risk appetite consistent with the good stewardship of public funds, the overriding principle being the prioritisation of security before liquidity and liquidity before yield.

Investing with the Greater London Authority (GLA)

5.3 As part of the ongoing GLA collaboration, TfL is planning to increase its investment in London Treasury Liquidity Fund LP (LTLF) in accordance with the limit stated in TfL's Treasury Management Policy. LTLF's assets are managed in accordance with the investment strategy included in Annex 1. TfL's investment in LTLF will comprise 98 per cent of loan contributions redeemable on a daily basis, and two per cent of core commitment which may be redeemed upon exit from the fund.

5.4 This means that of TfL's cash, up to £~~900m~~1,000m, or 75% of the total portfolio, will be managed by LTLF in accordance with the LTLF Investment Strategy as determined by the fund's General Partner and agreed by the Limited Partners, consistent with the strategy approved by the Mayor, laid out in Annex 1 to this document ~~and previously shared with the Finance Committee~~copied for information.

Investment managed by TfL

5.5 The remaining cash not invested in LTLF will be directly managed by TfL in accordance with this investment strategy and the limits detailed in the TfL Treasury Management Policies. This cash will be retained for managing shorter cashflows arising from daily and weekly fluctuations and will be invested in highly secure overnight, or short-term investments of one month or less to ensure TfL has sufficient liquidity to meet its forecast payment obligations.

5.6 Where possible, TfL will seek~~ to maximise~~ active investment in counterparties, rather than passive investments held through Money Market Funds (MMFs). This allows greater control over the quality of investments, may allow higher returns, and reduces fees. Some MMF investments will still be required for liquidity purposes.

5.7 The maturity profile of investments will reflect the expected cash flow requirements of TfL and accommodate for forecast variability.

5.8 At the time of investment, all investments will be rated a minimum of A-2, P-2 or F2 by Standard & Poor’s, Moody’s or Fitch Ratings credit rating agencies. Investments with counterparties that have a credit rating of less than any of A-1, P-1 or F1 will have a combined total of no more than £240m.

5.9 TfL will consider the risk of its overall portfolio as well as individual investments, seeking to diversify its investments as much as possible and have regard to the exposure to any one counterparty, country, industry, investment type, and credit. ~~Until a substantial investment is made in LTLF, TfL will target allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time.~~ TfL will seek to invest cash responsibly by investing in counterparties with strong Environmental, Social and Governance (ESG) performance and policies.

5.10 TfL will invest in instruments including: sovereign Treasury bills and bonds, UK Debt Management Office deposits, repurchase agreements, bank deposits, certificates of deposit, bonds, commercial paper, floating rate notes, MMFs or any other instrument allowing TfL to achieve the objectives set out in 4.1. Due to the short-term nature of TfL’s investments and the desire not to lose any principal, TfL will not invest in equity.

5.11 TfL may invest in non-sterling denominated investments where:

(i) currency is bought in advance of a payment or payments in that currency, or where the currency is otherwise received and TfL can identify other future expenditures in that currency to offset against; or

(ii) instruments denominated in currencies other than Sterling are swapped back to GBP as a matter of course.

5.12 TfL will generally hold investments to maturity, however where the Director of Corporate Finance or the Group Treasurer deems it appropriate, TfL may seek to break or resell fixed term investments early (including where doing so will result in TfL incurring penalties or crystallising a loss), in order to protect TfL against potential losses, meet unexpected liquidity requirements, improve its investment return or for ethical or reputational reasons.

5.13 TfL will seek to achieve year-to-date returns greater than the year-to-date average benchmark of SONIA (Sterling Overnight Index Average), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as MMFs.

6 BORROWING STRATEGY

6.1 The Borrowing Strategy will be applied in accordance with the strategic objectives listed in 4.1.

6.2 TfL's objective is to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money.

6.3 TfL's borrowing requirement for ~~2024/25~~2025/26 is expected to be approximately £~~717m~~915m, excluding rolling short-term commercial paper. This amount consists of £~~247m~~595m maturing borrowing that we intend to refinance, and £~~470m~~320m of new incremental borrowing.

6.4 In addition to the expected TfL borrowing, Places for London may raise its own borrowing to meet its capital requirements. This funding would be non-recourse to TfL and is included in the Places for LondonTreasury Management Strategy and Policies.

6.5 The total value of outstanding borrowing and other long-term liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board (as required by the Local Government Act 2003). TfL seeks to achieve its borrowing objectives by maintaining access to capital markets through its Euro Commercial Paper programme, Euro Medium Term Note programme and stand-alone capital market transactions. It will complement this with loans and other facilities from financial institutions and/or other public bodies, such as the GLA's Green Finance Fund. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (or any future body replacing it), a readily available source of liquidity. Other sources of finance will be used where they further TfL's stated objectives.

6.6 As debt service represents a relatively significant part of TfL's annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement. While fixed rates of borrowing are generally preferred, as they provide more certainty, TfL will assess the merits of having a certain amount of floating debt, where it is consistent with the borrowing and risk management objectives. TfL's policy is to have at least 75 per cent of all outstanding borrowing at fixed interest rates and no more than 25 per cent of borrowing at variable rates. TfL aims to match the variable rate borrowing with cash-in-hand to offset fluctuations in the short-term interest rates.

6.7 Borrowing is expected to be drawn predominantly in Sterling. However, HM Treasury has provided consent for TfL to access commercial paper markets in Euros and US Dollars, and TfL will access these markets when appropriate. Any foreign currency exposures arising from foreign currency borrowing will be subject to risk mitigation measures consistent with the principles of the Risk Management Strategy.

6.8 Given the long life of the majority of the assets financed by TfL, TfL's objective is to have a weighted average tenor of debt of at least 15 years. TfL will aim to structure its borrowing in a way that avoids large concentrations of debt of the same maturity in order to minimise the refinancing risk. The limits for maturity structure of borrowing are set out on annual basis, as suggested by the Treasury Management Code, and are the subject of a separate Prudential Indicators document approved by the Board.

6.9 TfL will consider opportunities to arrange loan facilities that enable drawdowns of debt in future years. Where TfL has the ability and option to do so it will consider fixing drawdowns beyond the ~~2024/25~~2025/26 financial year, in order to mitigate interest rate risk related to future borrowing requirements.

6.10 The source, tenor, currency and interest rate basis of individual debt transactions will be determined on a case by case basis taking into account value for money, TfL's risk appetite, market conditions, interest rate expectations, investors' preferences, the impact on TfL's debt maturity profile and target weighted average tenor.

6.11 TfL will consider opportunities to buy back, refinance, or otherwise restructure existing liabilities (including leases) where doing so represents value for money, or will improve the structure of TfL's liabilities, or facilitate changes to TfL's corporate structure.

7 LIQUIDITY STRATEGY

7.1 The Liquidity Strategy will be applied in accordance with the strategic objectives listed in 4.1.

7.2 The TfL Group (excluding LTIG, LTM and Places for London) will aim to hold sufficient cash and short-term investments to ensure it maintains a level of financial resilience that corresponds to TfL's size and risk profile, and in any event will hold a minimum level of cash and short-term investments as defined in the Treasury Management Policies. In practice this means TfL expects to hold higher cash balances than the absolute minimum set out in the Liquidity Policy. Places for London will aim to hold sufficient cash and short-term investments as set out in the Places for London Treasury Management Strategy.

7.3 Where appropriate, the cash and short-term investments will be supplemented by access to external liquidity sources, such as bank overdrafts, revolving credit facilities and other standby credit facilities. The adequacy of the external liquidity sources will be reviewed on an ongoing basis and TfL will arrange and maintain these facilities as required.

7.4 Bank overdrafts and standby credit facilities will not be used in the normal course of business, however TfL would consider borrowing temporarily within the Authorised Limit to address short-term liquidity needs, where it represents prudent management of TfL's financial affairs.

7.5 Cash and short-term investment balances ring-fenced for the construction of Elizabeth line will be managed to ensure sufficient liquidity to meet Elizabeth line's forecast payment obligations.

7.6 In order to limit the liquidity risk created by rolling the commercial paper programme, TfL will aim to manage its maturities so that no more than

£200m of short-term borrowings fall due for repayment in any six business-day period.

8 RISK MANAGEMENT STRATEGY

8.1 The Risk Management Strategy will be applied in accordance with the strategic objectives listed in 4.1.

8.2 TfL maintains a low-risk appetite consistent with the good stewardship of public funds. It aims to mitigate financial risks to the extent possible, aiming to provide security of TfL's funds and certainty of costs and revenues.

8.3 The objectives of the Risk Management Strategy are to:

(i) achieve greater value for money through reducing costs or protecting revenues;

(ii) holistically manage financial risks across the whole of TfL; and

(iii) reduce volatility or increase certainty relating to the impact of financial risks upon the Business Plan.

8.4 TfL is materially exposed to a number of specific financial risks in the ordinary course of business, arising from the borrowing programme, the capital investment programme and certain ongoing contractual obligations. These risks include:

(a) interest rate risk related to TfL and its subsidiaries' existing or planned future borrowing requirements (including leases);

(b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by TfL or its subsidiaries; from receipts of grants or revenues payable to TfL or its subsidiaries in currencies other than Sterling; from any foreign currency borrowing; and in the course of making foreign currency investments;

(c) commodity price and/or rate risk related to specific procurements or contracts across TfL and its subsidiaries containing a significant cost element for a commodity component and/or ongoing operational procurements such as power and fuel whether direct or indirect exposures;

(d) inflation risk across TfL and its subsidiaries; and

(e) price risk on any investment activities.

8.5 Financial risks will be identified, managed and controlled through a number of instruments, methods and techniques, including passing the risk to the counterparty where appropriate. Where the identified risks fall into the categories described in paragraph 8.4 and have highly probable exposures with a highly certain risk profile, TfL may use financial instruments to manage exposure to these risks.

8.6 Where TfL arranges derivative investments through its subsidiary, Transport for London Finance Limited, it may put in place intra-group arrangements to confer the benefit of those derivative investments to the TfL entity bearing the underlying risk.

Annex 1 ~~–~~- Included for Information: London Treasury Liquidity Fund

Investment Strategy ~~2024-25~~ 2025-26 (Draft Pending LPAC Approval on 28 Feb 2025)

1. Background

1.1. This document sets out the investment strategy for the London Treasury Liquidity Fund (LTLF) for the financial year ~~2024-25.~~ 2025-26.

~~2. The main changes in the strategy from previous years, which have been agreed in principle by LTLF's Limited Partners' Advisory Committee (LPAC), are summarised below:~~

~~a. A new Strategic Lending allocation of 5% of the fund is to be created by taking 5% from Core Liquidity (now 50% rather than 55%). Liquidity has been maintained by reducing the maximum Weighted Average Life (WAL) of Core Liquidity from 90 days to 60 days.~~

~~b. Strategic Lending (a new 5% allocation) and Strategic Investments (the existing 10% allocation) have performance benchmarks of SONIA + 200bps and + 300bps respectively, giving LTLF the flexibility to take advantage of a wider range of investment opportunities. Previously strategic investments had a benchmark return of SONIA + 400bps, set in a very different interest rate environment and which ruled out a number of investments that could usefully contribute to achieving the targeted return while remaining within acceptable risk parameters.~~

~~c. In section 3, Counterparty and Investment Limits, investments are categorised as Specified (S) or Non-Specified (NS) in accordance with the statutory guidance. Previously there was a NS* category where the investments concerned had to be managed by an FCA regulated manager. Since all investments have to be managed by FCA regulated managers under the current fund structure, this category is redundant and has been replaced by NS.~~

~~d. Section 3.3 has been redrafted to clarify how the exposure limits are calculated, in particular, how forecast average balances are used for measuring limits for longer-term investments. This highlights how important it is to work in partnership to create accurate forecast cash-flow information, which then enables LTLF to meet Limited Partners' liquidity requirements in the most efficient manner possible.~~

~~e. In Table 5, cash exposure limits to individual counterparties are now reduced. These reduced limits promote a diversification of counterparties and better reflects how the portfolio is run in practice: the previous limits were a relic from times when it was envisaged the overall fund balances could be more volatile. A new limit of 10% of the portfolio to any one Local Authority counterparty (previously not limited) has been added. This reflects the fact that while Local Authorities are considered by the partnership to carry UK Sovereign equivalent risk, there is nevertheless the possibility of stressed Local Authority cash-flows in the short term. LTL's Investment Team undertakes due diligence on any~~

~~Local Authority before any investment is made, avoiding those with excessive borrowing or well-publicised funding issues or suspected financial mismanagement where appropriate.~~

~~f. To bring consistency, a maximum limit on any new investment has been proposed across both Strategic Lending and Other Strategic Investments of 3% of assets under management at the point of commitment.~~

~~g. With Strategic Investments, while seen as longer-term investments, the intention is to have regular liquidity. This will come from a diversified portfolio of closed investments returning capital each year plus investments that offer redemption options within 12 months. An initial limit of at least 33% of the portfolio being liquid within one year was included in the 2023-24 investment strategy. Reviewing the investment opportunities available, to avoid overly restricting opportunities, it is proposed to set the percentage at 25% rather than 33%.~~

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
Total		**100%**	**SONIA + 50bps**

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

*Measured as a seven-day rolling average

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~~redemption requests from its Limited Partners.

Yield

LTLF targets a net return, after fees and expenses, of ~~at least~~ SONIA + ~~40 bps~~40bps over a rolling three-year period.

This yield target is used as the comparator benchmark for LTLF's performance assessment and analysis.

3. Counterparty and Investment Limits

~~1.0.~~3.1. Table 1 sets out the range of specified and non-specified investments permitted ~~by~~for LTLF. Specified and non-specified investments are as defined in the Statutory Guidance on Local Government Investments issued by the ~~Department for Levelling Up,~~Ministry of Housing~~ and~~, Communities ~~(DLUHC)~~ and Local Government under the Local Government Act 2003.

The following key applies:

S = Specified (These are sterling investments with high credit quality (see Table 3) 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~~lower risk assets where the possibility of loss of principal or investment income is deemed negligible. The instruments and associated credit criteria to be used are set out in ~~the table below.)~~ Table 1.)

NS = Non-Specified (Non-specified investments are any other type of investment~~.~~ that do not meet the criteria to be specified investments. They normally offer the prospect of higher returns but carry a higher risk.)

~~3.0.~~3.2. LTLF will make best efforts to maintain at least 50% of all investments (or underlying investments) in the form of ~~Specified Investments.~~ specified investments.

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)
Senior Unsecured Debt, e.g. • **Deposits** • **Call Accounts** • **Notice Accounts** • **Certificates of Deposit** • **Loans** • **Commercial Paper** • **UK Gilts and T-Bills** • **All other senior unsecured bonds**	Issuer (and security where separately rated) Investment Grade (IG) defined per **Table 3** 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 **Table 2**	S (NS if not denominated in sterling)	NS	Aggregate 100%, individual limits determined by **Table 5**
Money Market Funds	Fitch AAA$_{mmf}$ or ~~above~~ ~~See **Table 3** for equivalents~~equivalent from other agencies per **Table 3** Daily liquidity	S	*N/A*	100% Not more than 20% per money market fund
Other Collective Investment Schemes e.g. Enhanced Cash Funds	Fitch AAA$_{f}$ or equivalent from other agencies per **Table 3**	NS	*N/A*	20%
Covered Bonds	Bond rating Fitch AA+$_{sf}$	NS	NS	20%

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)
	or equivalent from other agencies per **Table 3** AND Issuer rated Fitch A- or above or equivalent from other agencies per **Table 3**			
Repurchase Agreements (Repo)	Counterparty meets senior unsecured debt criteria AND proposed collateral (~~Min~~min. 100%) itself meets permitted investment criteria OR Collateralisation is >102% with UK Gilts ~~/~~or T-Bills	S – UK ~~gilts~~Gilts or T-Bills AND counterparty meets senior unsecured debt criteria NS – other	*Not permitted*	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured debt criteria
~~**Senior UK Prime or Buy-to-Let**~~ **Residential Mortgage-Backed Securities (RMBS)**	~~Bond rating Fitch AA+$_{sf}$ or above or equivalent from other agencies per **Table 3**~~ See **Section 5**	NS	NS	35%
Medium-Term Strategic Lending	See **Section ~~5~~ 6**	NS	NS	5%
Other Strategic Investments	See **Section ~~6~~ 7**	NS	NS	10%

~~4.~~3.3. LTLF's assets under management ("AUM") can vary in the short-term as its Limited Partners ~~deposit~~subscribe and ~~withdraw~~redeem their treasury funds in the normal course of business.

~~5.~~• For short-term core liquidity assets, exposure is measured against LTLF's AUM on the day.

~~6.~~• 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~~cashflows 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~~cashflows 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~~Investment Limits

~~1.~~4.1. Maximum direct exposures to non-UK financial institutions apply by country, based on the relevant sovereign ratings outlined in the table below:

Table 2 – Country Limits

~~Max.~~Maximum Aggregate Exposure (%)	Fitch Sovereign Rating	Moody's~~S&P~~ Sovereign Rating	S&P ~~Moody's~~ Sovereign Rating
25	AAA	~~AAA~~ Aaa	~~Aaa~~ AAA
15	AA+	~~AA+~~ Aa1	~~Aa1~~ AA+
5	A	~~A~~ A2	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~~LTLF's portfolio ~~manager.~~ managers.

~~2.~~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

Issuer and/or Senior Unsecured Bond Ratings					
Long-term			**Short-term**		
Fitch	**Moody's**	**S&P**	**Fitch**	**Moody's**	**S&P**
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
Structured Finance Ratings					
Fitch		**Moody's**		**S&P**	
AAAsf		Aaa (sf)		AAA (sf)	
AA+sf		Aa1(sf)		AA+ (sf)	
AAsf		Aa2 (sf)		AA (sf)	
Money Market Fund Ratings					
Fitch		**Moody's**		**S&P**	
AAAmmf		Aaa-mf		AAAm	
Other Permitted Fund Ratings					
Fitch		**Moody's**		**S&P**	
AAAf		Aaa-bf		AAAf	

~~3.~~4.3. For core liquidity investments, lower ratings are balanced by higher ones in order to maintain ~~a~~an overall 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~~The PCF must remain below 5 and no single instrument may exceed a credit factor of 10.

Table 4 – Credit Factors

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

~~4.~~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.

~~5.~~4.5. Exposure limits to individual counterparties are determined by the colour bands assigned under the Colour Banding Methodology supplied by MUFG Corporate Markets (previously known as Link ~~Asset~~Treasury Services~~.~~).

Table 5 – Concentration Limits

Cash Exposure Limits – ~~applied~~Applied to ~~individual counterparties~~ Individual Counterparties		
Band	**Overnight**	**> 1 day**
UK Sovereign (see 4.7)	100%	100%
UK Local Authorities (see 4.~~7)~~ 8)	10%	10%
Yellow	20%	20%
Purple	20%	15%
Orange	15%	15%
Red	15%	10%
Green	10%	5%
No Colour	5%	5%

~~6.~~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.

~~7.~~4.8. Notwithstanding their UK Sovereign status, Local Authorities' ~~cash-flows~~cashflows 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. Residential Mortgage-Backed Securities (RMBS)

5.1. As set out in paragraph 2.1, up to 35% of LTLF's investment portfolio may be invested in RMBS.

5.2. Except as set out in paragraph 5.3, the RMBS allocation is to be invested in Senior UK Prime or Buy-to-Let RMBS with a Fitch credit rating of AA+$_{sf}$ or above (or equivalent rating from other agencies per Table 3).

5.3. The RMBS allocation may also be invested in higher yielding Senior or Second-Pay UK Prime or Buy-to-Let RMBS with a Fitch credit rating of AA$_{sf}$ (or equivalent rating from other agencies per Table 3) provided that the total investment in the higher-yielding AA$_{sf}$ rated RMBS does not exceed 5% of LTLF's investment portfolio.

5.4. The expected WAL of the RMBS portfolio will not exceed 3.5 years.

~~5.~~6. Medium-Term Strategic Lending

~~1.~~6.1. 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~~portfolios but with a low risk of capital impairment~~.~~ as assessed by the portfolio manager. The portfolio focusses on individual direct transactions, but fund investments with a similar strategy may also be used.

~~2.~~6.2. 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

~~3.0.~~6.3. The expected WAL of medium-term strategic lending will not exceed ~~five~~5 years.

~~4.0.~~6.4. Medium-term strategic lending will be secured on assets or ~~cash-flows~~cashflows except where the borrower is (or is guaranteed by) an investment~~-~~ grade counterparty (Fitch BBB or ~~better, see~~above, or equivalent rating from other agencies per Table 3) or a public body with credible sovereign support.

~~6.~~7. ~~Long-Term Core Balance –~~ Other Strategic Investments

~~1.0.~~7.1. 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

~~2.0.~~7.2. 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~~paragraph 2.2 ~~above.~~ .

~~3.0.~~7.3. The following limits will apply to the other strategic investments allocation:

Criteria	Limit
Overall ~~expected~~ portfolio volatility	95% VaR ≤ 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~~Alternative investment strategies, other debt and equity (public and private)	< 50% of other strategic investments allocation

~~4.0.~~7.4. LTLF will not directly hold land or property.

~~5.0.~~7.5. 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

~~6.0.~~7.6. London Treasury Limited (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 medium-term strategic lending and other strategic investments ~~allocation~~allocations, where such new investment opportunities are in a new fund or in a new product (~~the~~refer to Reserved Investment Decisions~~).~~ in the amended and restated limited partnership agreement).

~~7.~~8. Hedging

8.1. Core liquidity investments may be made in foreign currency, provided that the net return after the cost of hedging exceeds or matches investments of equivalent duration with counterparties of similar quality issued in sterling and that the investment provides useful diversification. Such investments must always be fully hedged into sterling as soon as practicable to reduce the risk of crystalised losses from short-term currency movements.

~~1.0.~~8.2. 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~~LTL after consultation with the LPAC.

~~2.0.~~8.3. ~~Any~~LTLF's 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.

~~3.0.~~8.4. The denomination of Limited Partners' investment in LTLF will always be sterling.

~~8.~~9. Investment Limit Exceptions

~~1.0.~~9.1. 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.

~~2.0.~~9.2. 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.~~10. Environmental Social and Governance (ESG) Considerations

~~1.0.~~10.1. LTLF's investment portfolio ~~will be~~is managed in accordance with the GLA Group Responsible Investment Policy.

10.2. LTLF will monitor and report annually on the ESG status and impact of its investments and counterparties.