Name and date of meeting: **Corporate Governance and Audit Committee**
16 November 2018

Cabinet
11 December 2018

Council
12 December 2018

Title of report: **Half Yearly Monitoring report on Treasury Management activities 2018/19**

Purpose of report

The Council has adopted the CIPFA Code of Practice on Treasury Management. It is a requirement of the Code that regular reports be submitted to Members detailing treasury management operational activity. This report is the mid-year for 2018/19 covering the period 1 April to 30 September 2018.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**No**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Date signed off by Service Director** **Is it also signed off by the Service Director Legal Governance and Monitoring?**	**N/A** **Eamonn Croston – 8 November 2018** **Julie Muscroft – 8 November 2018**
Cabinet member portfolio	**Corporate** **Graham Turner**

Electoral wards affected: **N/A**
Ward councillors consulted: **N/A**
Public or Private: **Public**

1 Summary

1.1 The report gives assurance that the Council's treasury management function is being managed prudently and pro-actively. External investments averaged £43.1 million during the period at an average rate of 0.56%. Investments have ranged from a peak of £70.8m in August and a low of £15.8m in April.

1.2 Balances were invested in line with the approved treasury management strategy (see Appendix 1), in instant access accounts or short-term deposits.

1.3 The treasury management revenue budget is forecasted to underspend by £5.4m in 2018/19 against an annual budget provision of £22.9m due to the change in Minimum Revenue Provision (MRP) policy which generated an underspend against baseline of £9.1m. Of this underspend, it is intended that £4.1m transfers to financial resilience reserves at year end, with the balance of £5.0m released in-year to support additional investment into high needs service in-year.

1.4 In-year treasury management performance is in line with the treasury management prudential indicators set for the year (see appendix 4).

1.5 the Financial Outturn and Rollover Report 2017-18 presented to Council on 11 July 2018 included officer intentions to review current treasury management investment policy and consider options for future investment opportunities that could make additional returns for the Council. The report includes a recommendation to pursue a more diverse portfolio of investment in line with a significant amount of other Local Authorities through the Local Authorities Property Fund, subject to consideration of the potential risk and accounting treatment that is currently still being considered through a formal Government consultation.

2 Information required to take a decision

2.1 The treasury management strategy for 2018/19 was approved by Council on 14 February 2018. The over-riding policy continues to be one of ensuring the security of the Council's balances. The Council aims to invest externally balances of around £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements.

2.2 The investment strategy is designed to minimise risk, with investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds. Diversification amongst counterparties is key.

<u>Economic Context</u>

2.3 The following economic update has been provided via our external advisors Arlingclose (paragraphs 2.6 to 2.9 below in italics):

2.4 *The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for* *regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.*

2.5 *The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.*

2.6 *The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK nto the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.*

2.7 *The ring-fencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ring-fenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.*

Investment Performance

2.8 The Council invested an average balance of £43.1 million externally during the period (£41.3 million in the first six months of 2017/18), generating £120k in investment income over the period. Appendix 7 shows a comparative average net monthly balances invested over the last 3 years.

2.9 Balances were invested in instant access accounts or short term deposits. Appendix 1 shows where investments were held at the start of April, the end of June and September by counterparty, by sector and by country.

2.10 The Council's average investment rate for the period was 0.56%. This is higher than the average in the same period in 2017/18 of 0.20%. This is mainly due to both the base rate increase to 0.75% in August 2017.

2.11 As per Appendix 3, the Council performed well against other Local Authorities when comparing internal investments. In order to gain better rates of return, the majority of Local Authorities performing better have further external investments in specific commercial property portfolios or a more diverse portfolio such as the Local Authorities Property Fund.

Borrowing Performance

2.12 Long-term loans at the end September totalled £395.4 million (£400.4 million 31 March 2018) and short-term loans £2.0 million (£0.9 million 31 March 2018). There has been no new long term borrowing so far this year. There isn't an expectation of any new additional long term borrowing this year.

2.13 Fixed rate loans account for 81.0% of total long-term debt giving the Council stability in its interest costs. The maturity profile for fixed rate long-term loans is shown in Appendix 2 and shows that no more than 10% of fixed rate debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in future years when interest rates might be at a relatively high level.

2.14 Appendix 5 sets out in year repayments on long term borrowing and also further re-payments for the next 6 months.

Revenue Budget Monitoring

2.15 The treasury management budget for 2018/19 currently stands at £22.9m. The latest budget monitoring shows an under-spend of £5.4m. The under-spend is mainly due to the revised Minimum Revenue Provision (MRP) policy to provide for MRP on the basis of the asset life to which external borrowing is incurred rather than the older version of a 4% reducing balance of the Capital Financing Requirement (CFR). The MRP calculation is used to determine the amount of revenue resources that need to be set aside annually by the Council to meet its debt obligations. The balance of £0.4m treasury management underspend is due to a reduction in the need for short term borrowing due to further slippage in the Capital Plan.

Prudential Indicators

2.16 The Council is able to undertake borrowing without central government approval under a code of practice called the Prudential Code. Under this Code, certain indicators have to be set at the beginning of the financial year as part of the treasury management strategy.

2.17 The purpose of the indicators is to contain the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. Appendix 4 provides a schedule of the indicators set for treasury management and the latest position.

Borrowing and Investment – General Strategy for 2018/19

2.18 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

2.19 An authority can choose to finance its CFR through internal or external borrowing or a combination of the two.

2.20 Forecast changes in the Capital Financing Requirement (CFR) and how these will be financed are shown in the balance sheet analysis at Table 1 below:

Table 1: Balance Sheet Forecast

	Actual 2017/18 £m	Strategy Estimate 2018/19 £m	Revised Forecast 2018/19 £m
General Fund CFR - Non PFI	420.3	458.9	429.8
PFI	52.3	49.3	49.3
HRA CFR - Non PFI	182.8	175.3	183.2
PFI	54.9	52.9	52.9
Total CFR	710.3	736.4	715.2
Less: PFI debt liabilities (1)	107.2	102.2	102.2
Borrowing CFR	603.1	634.2	613.0
Financed via;			
Deferred Liabilities (Non-PFI) (2)	4.0	3.9	3.9
Internal Borrowing	185.9	136.6	208.7
External Borrowing	413.2	493.7	400.4
Total	603.1	634.2	613.0
Investments	36.1	30.0	30.0

(1) £107.2m PFI Liability (£5.0m falling due in 2018/19)
(2) Deferred Liabilities = £1.0m Finance Lease (Civic Centre 1) & £3.0m Transferred Debt (Probation - Bradford, Waste Management - Wakefield & Magistrates Debt Charges)

2.21 The revised forecast takes into account the following factors;

a) General Fund CFR has reduced from £458.9m in the 2018/19 Strategy to £429.8m revised forecast due to further slippage and re-profiling within the Capital Plan.

b) Internal borrowing in the 2018/19 Strategy was £136.6m, this has now been revised up to £208.7m due to lower than forecast use of reserves.

2.22 The Council currently looks to maximise internal borrowing due to the relatively low rates of investment income available within the scope of the Treasury Management Strategy.

Future Treasury Management Strategy

2.23 The Financial Outturn and Rollover Report 2017-18 reported to Council on 11 July 2018 included officer intentions to review current treasury management investment policy and consider options for future investment opportunities that could make additional returns for the Council.

2.24 One such opportunity would be to invest in the Local Authority Properties Fund. Any Local Authority in England, Wales, Scotland and Northern Ireland can invest and the asset allocation is distributed across a mixture of mainly property portfolios across the UK, but is supplemented with cash investments (Appendix 8).

2.25 The Local Authorities Property Fund currently generates a gross yield of 4.47% (based on most recent quarter estimate) which is a far greater return than the current Council short-term investments due to the nature of the latter being more liquid and having greater security. However due to the diversification of the Local Authorities Property Fund portfolio, this still offers relatively more security than if the Council were to invest within individual commercial properties.

2.26 Officers consider that an investment of between £5m and £10m could be considered, given current average monthly balances available for investment of £43.1m, as noted earlier in the report at para 2.8, and also noting recent year available average monthly balances for investment, as shown in Appendix 7. This highlights the increased investment level in 2018-19 compared with 2017-18 and the potential for consideration of a £5m to £10m investment, with the majority of available balances still directed at short-term (liquid) investments, and some balances used for longer term investment.

2.27 Based on current yields, the anticipated annual investment income from £5m – £10m investment could be in the range £225k - £450k onging,

2.28 The Fund has previously offered both stable yields and capital gains over the last 10 years. However, it must be noted that this is heavily dependent on property prices and if there were to be a property crash the Council would incur a capital loss on any investment.

2.29 The introduction of a new code of accounting practice for local government, from April 2018 relating to Financial Instruments, would ordinarily mean that any movement in the fair value of the overall capital asset portfolio from year to year (positive or negative) , would now have a real impact on the Council’s annual Comprehensive Income and Expenditure Statement and therefore would impact on the Council Tax payer.

2.30 However, Government is currently consulting on a statutory override to this requirement specifically in relation to the Local Authorities Pooled Investment Funds, albeit the override would be for 3 years only (to 1 April 2021). Councils are lobbying for the override to be made permanent. Therefore the potential for this change and the impact this could potentially have on the Council needs to be considered as part of an investment within such a fund. The outcome of this consultation is expected to be announced by Government later in the year.

2.31 The recently updated Prudential Code and Treasury Management Guidance which the Council will be formally adopting from 2019-20 onwards, notes that any investment in such funds (or individual commercial activity) should be proportionate to the requirements of the Council and should not be considered as a means to generate income without considering the potential impact if those investments were to generate a lower than expected return. It can be seen that some public sector bodies have pushed the boundaries in this area which may lead to a further revision in the updated CIPFA Code/Government Guidance in the future.

2.32 An investment with the Local Authority Property Fund, which has a diversified commercial portfolio throughout the UK would be seen as “non-treasury management activity” in that the purpose of holding such an investment is to generate a return rather than directly to service outcomes.

2.33 A further new requirement of the updated Treasury Management Code of Practice (2017) is to ensure management practice is in place for non-treasury management activity in addition to the existing 12 Treasury Management Practices (TMPs). This is outlined at the end of this report (Appendix 6).

2.34 The updated CIPFA Prudential and Treasury Management Codes also call for more robust management of commercial activity and capital borrowing, acknowledging the increasing trend over more recent years for Councils to investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. The prudential code takes the same position as the statutory guidance, and it is clear that authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. An investment in the CCLA Property Fund would not fall in to this category as it will not be funded by new borrowing, it would be utilising current day to day cash balances.

Risk and Compliance issues

2.35 In line with the investment strategy, the Council has not placed any direct investments with companies as defined by the Carbon Underground 200.

3 Implications for the Council

3.1 The treasury management underspend has been incorporated into the overall Quarter 2 financial monitoring report presented to Cabinet on 13 November 2018.

3.2 The outcome of the statutory override consultation on the Local Authority Property Fund will be reported back to members in due course.

4 Consultees and their opinions

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Following consideration at Corporate Governance & Audit Committee, this report will be presented to Cabinet on 11 December 2018 and then full Council on 12 December 2018.

6 Officer recommendations and reasons

Having read this report and the accompanying Appendices, Corporate Governance & Audit Committee are asked to:

6.1 note the half-year treasury management performance in 2018-19 as set out in the report;

6.2 Approve officer proposals for an amendment in the Council's current investment strategy to include the Local Authority Property Fund as a potential investment source;

6.3 To consider proposals for officers to further explore an investment opportunity of between £5m and £10m in the Fund, and subject to further Government clarification on the statutory override, and other risk considerations, to formalise any such proposals into the forthcoming 2019/20 annual treasury management strategy and annual budget for further member consideration

7 Contact officer

James Anderson Senior Finance Manager 01484 221000

8 Background Papers and History of Decisions

CIPFA's Prudential Code for Capital Finance in Local Authorities.
CIPFA's Code of Practice on Treasury Management in the Public Services.
The treasury management strategy report for 2017/18 - Council 15 February 2017
CIPFA 2017 consultation - Prudential and Treasury Management Codes
Council Budget Strategy Update Report 2019-22 – Council 11 October 2018
Annual Report on Treasury Management 2017-18 - Annual Financial Outturn and Rollover Report 2018-19; Council 11 July 2018.

9 Service Director responsible

Eamon Croston 01484 221000

Appendix 1

Kirklees Council Investments 2018-19

Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating	Credit Rating Sept 2018*	1 April 2018 (opening) £m	Interest Rate	Type of Investment	30 June 2018 £m	Interest Rate	Type of Investment	30 September 2018 £m	Interest Rate	Type of Investment
Specified Investments													
London Borough of Newham		10.0	-	-				8.0	0.55%	1 month			
Bank of Scotland	Bank	10.0	F1	F1/A+									
Lloyds	Bank	10.0									6.0	0.75%	32 Day Notice
Santander	Bank	10.0						5.0	0.55%	35 Day Notice	7.0	0.85%	35 Day Notice
Handelsbanken	Bank	10.0	F1	F1+/AA							6.7	0.77%	35 Day Notice
Std Life (Ignis)	MMF**	10.0	AAA-A	AAA	9.9	0.46%	MMF	10.0	0.53%	MMF	9.9	0.67%	MMF
Aviva	MMF**	10.0	Aaa-A2	Aaa	10.0	0.42%	MMF	9.8	0.51%	MMF	9.9	0.67%	MMF
Deutsche	MMF**	10.0	AAA-A	AAA	9.0	0.37%	MMF	6.5	0.45%	MMF	1.7	0.64%	MMF
Goldman Sachs	MMF**	10.0	AAA-A	AAA	7.2	0.37%	MMF	10.0	0.47%	MMF	9.9	0.64%	MMF
					36.1			**49.3**			**51.1**		
Sector analysis													
Bank		10.0 each						5.0	10%		19.7	39%	
Building Society		10.0 each											
MMF**		40.0			36.1	100%		36.3	74%		31.4	61%	
Local Authorities/Cent Govt		Unlimited						8.0	16%				
					36.1	100%		**49.3**	100%		**51.1**	100%	
Country analysis													
UK								13.0	26%		13.0	25%	
Sweden											6.7	13%	
MMF**					36.1	100%		36.3	74%		31.4	62%	
					36.1	100%		**49.3**	100%		**51.1**	100%	

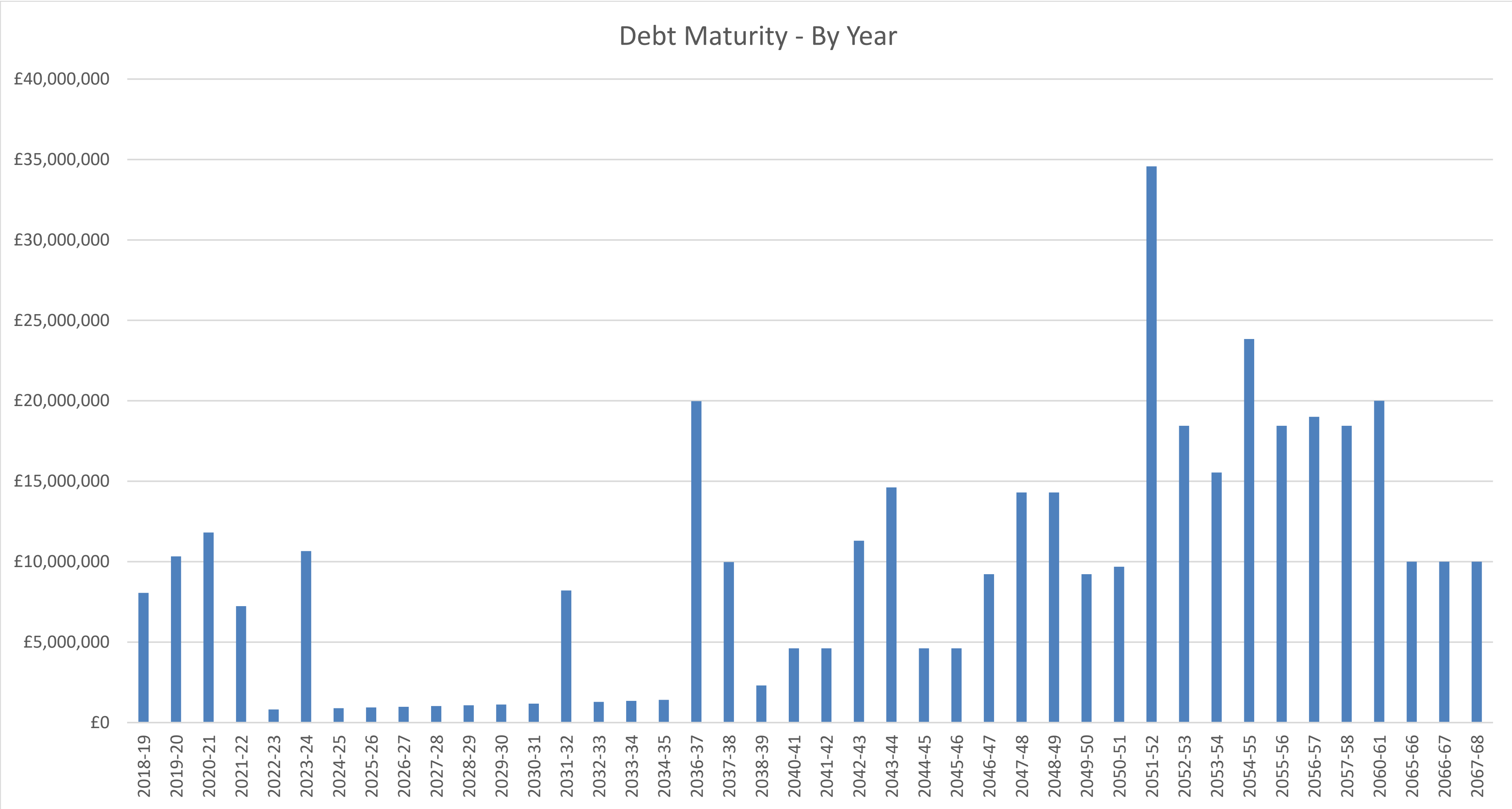
*Fitch short/long term ratings, except Aviva MMF (Moody rating). See next page for key. The use of Fitch ratings is illustrative – the Council assesses counterparty suitability using all 3 credit rating agencies, where applicable, and other information on credit quality.

**MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

Key – Fitch's credit ratings: **Appendix 1 Continued**

		Long	Short
Investment Grade	Extremely Strong	AAA	
		AA+	
	Very Strong	AA	F1+
		AA-	
		A+	
	Strong	A	F1
		A-	
		BBB+	F2
	Adequate	BBB	
		BBB-	F3
Speculative Grade		BB+	
	Speculative	BB	
		BB-	
		B+	B
	Very Speculative	B	
		B-	
		CCC+	
		CCC	
	Vulnerable	CCC-	C
		CC	
		C	
	Defaulting	D	D

Appendix 2


Debt Maturity - By Year
£40,000,000
£35,000,000
£30,000,000
£25,000,000
£20,000,000
£15,000,000
£10,000,000
£5,000,000
£0
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24
2024-25
2025-26
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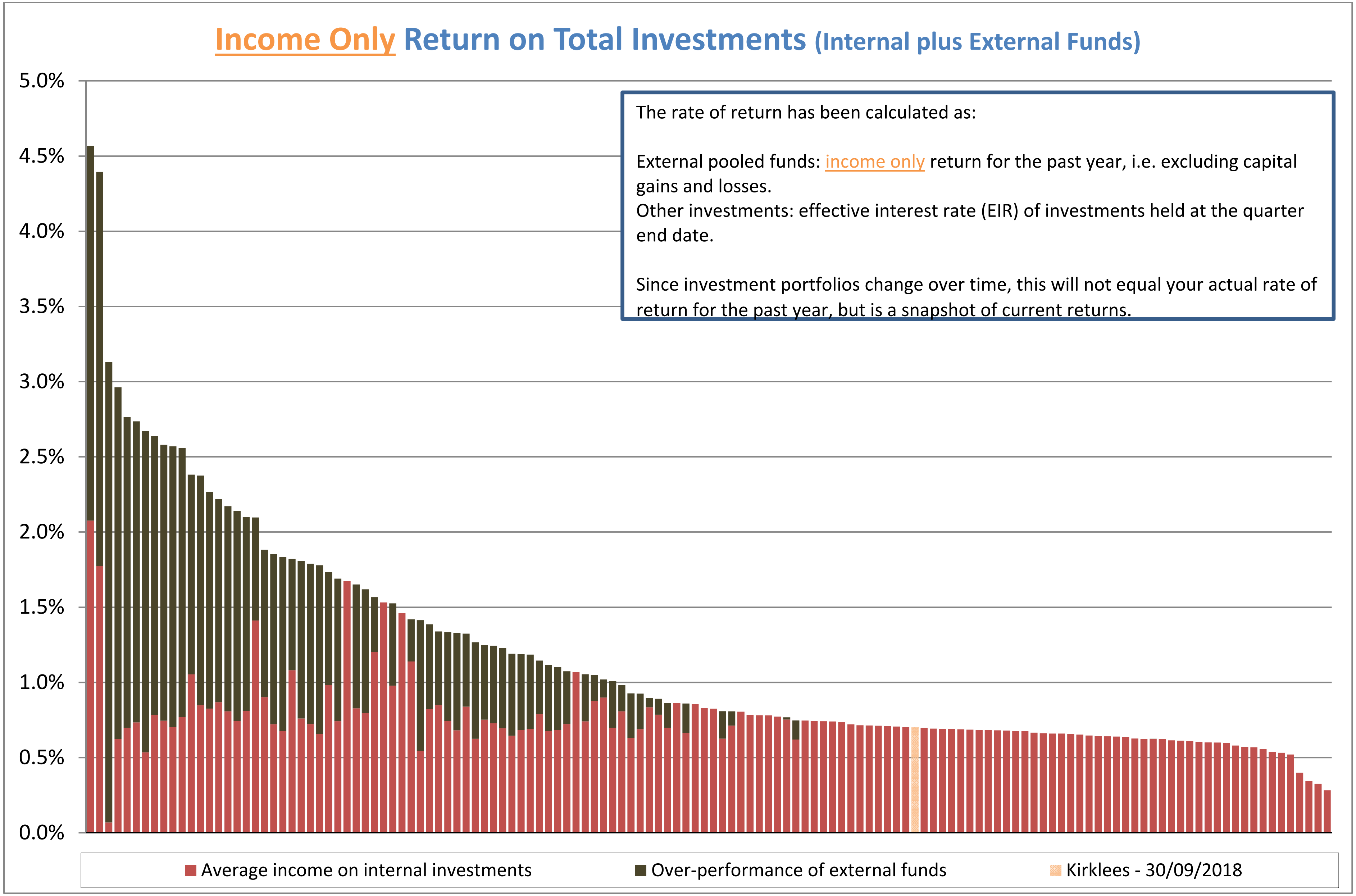
2067-68


Income Only Return on Total Investments (Internal plus External Funds)
The rate of return has been calculated as:
External pooled funds: income only return for the past year, i.e. excluding capital gains and losses.
Other investments: effective interest rate (EIR) of investments held at the quarter end date.
Since investment portfolios change over time, this will not equal your actual rate of return for the past year, but is a snapshot of current returns.
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
Average income on internal investments
Over-performance of external funds
Kirklees - 30/09/2018

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2018 - 19	Estimated Actual* 2018 - 19
Interest at fixed rates as a percentage of net interest payments	60% - 100%	81%
Interest at variable rates as a percentage of net interest payments	0% - 40%	19%

*The estimated actual is within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2018 - 19	Est'd Actual 2018 - 19
Under 12 months	0% - 20%	2%
12 months to 2 years	0% - 20%	2%
2 years to 5 years	0% - 60%	6%
5 years to 10 years	0% - 80%	4%
More than 10 years	20% - 100%	86%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council will not invest sums for periods longer than 364 days.

APPENDIX 5

Long-term loans repaid during the period 01/04/18 to 30/09/18

	Amount £000s	**Rate %**	**Date repaid**
PWLB (498438) - Maturity	4,613	4.10	17 Sept 18
PWLB (496956) - Annuity	337	4.58	29 Sept 18
Total	4,950		

Long-term loans to be repaid during the period 01/10/18 to 31/03/2019

	Amount £000s	**Rate %**	**Date to be repaid**
PWLB (476734) – Maturity	2,768	4.24	23 Dec 18
PWLB (496956) - Annuity	344	4.58	29 Mar 19
Total	3,112		

Appendix 6

TREASURY MANAGEMENT PRACTICES

The following Treasury Management Practices (TMPs) set out the manner in which the Council aims to achieve its treasury management policies and objectives, and how it will manage and control those activities.

1. **TMP 1 Risk management**

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

(i) Credit and counterparty risk management

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

(ii) Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

(iii) Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

(iv) Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

(v) Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

(vi) Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(i) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

(vii) Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

(viii) Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

2. TMP2 Performance measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery and of other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

3. **<u>TMP3</u> Decision-making and analysis**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

4. **<u>TMP4</u> Approved instruments, methods and techniques**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice when entering into arrangements to use such products.

5. **<u>TMP5</u> Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegation to the Chief Finance Officer in respect of treasury management is set out in the schedule to this document. The Chief Finance Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on Treasury Management.

6. **<u>TMP6</u> Reporting requirements and management information arrangements**

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

The present arrangements and the form of these reports are detailed in the schedule to this document.

7. **<u>TMP7</u> Budgeting, accounting and audit arrangements**

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with the TMPs. Budgeting procedures are set out in the schedule to this document. The Chief Finance Officer will exercise effective controls over this budget, and will report any major variations.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of this function's accounts is set out in the schedule to this document.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

8. **<u>TMP8</u> Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Chief Finance Officer and, with the exception of Secondary Schools' bank accounts, will be aggregated for cash flow purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(i) Liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule to this document.

9. **TMP9** Money laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that staff involved in treasury management activities are fully aware of their responsibilities with regards this. The present safeguards, including the name of the officer to whom any suspicions should be reported, are detailed in the schedule to this document.

10. **TMP10** Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure that Members of the committee providing a scrutiny function have access to regular training relevant to their responsibilities.

11. **TMP11** Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the organization at all times. However, it also recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements and the Council’s Contract Procedure Rules will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

12. **TMP12** Corporate governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if necessary, report upon the effectiveness of these arrangements.

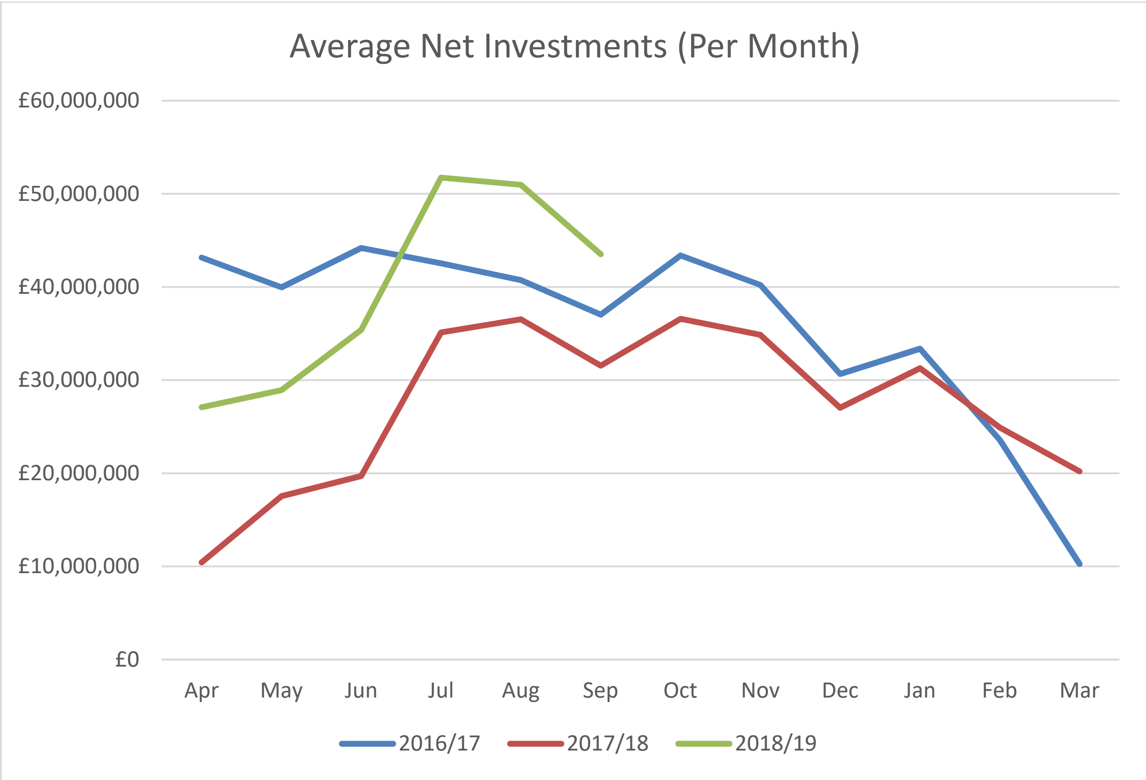
Management Practices for Non-Treasury Investments

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all investments are covered in the Capital and Investment Strategies, and will set out where appropriate, the Councils risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that of treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

Appendix 7


Average Net Investments (Per Month)
£60,000,000
£50,000,000
£40,000,000
£30,000,000
£20,000,000
£10,000,000
£0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2016/17
2017/18
2018/19

Appendix 8

SEE ATTACHED

The Local Authorities' Property Fund

Fund Fact Sheet – 30 June 2018

Investment objective

The Fund aims to provide investors with a high level of income and long-term capital appreciation.

Investment policy

The Fund is an actively managed, diversified portfolio of UK commercial property. It will principally invest in UK commercial properties, but may invest in other assets.

Suitability

The Fund is suitable for the long-term funds of any local authority seeking exposure to UK commercial property.

Independent Governance

The trustee is the Local Authorities' Mutual Investment Trust (LAMIT) a body controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and investors in the Fund.

Who can invest?

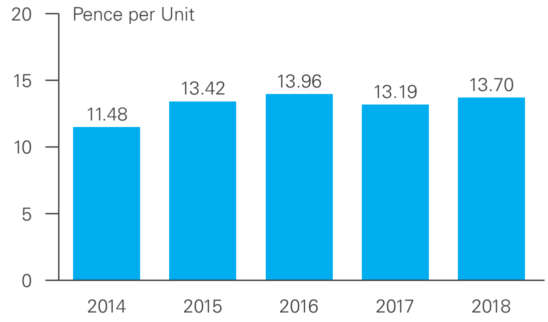
Any local authority in England, Wales, Scotland and Northern Ireland.

Income

Gross dividend yield	4.47%*
AREF/IPD™ Other Balanced Property Fund Index yield	3.59%
Official Bank Rate	0.50%

* Based upon the net asset value and historic gross annual dividend of 13.5691p. Distribution for the most recent quarter has been estimated.

Rolling 12 month distributions to 31st March:



Unique accounting advantages

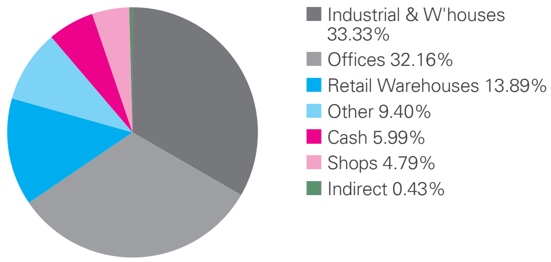
Unlike other property fund investments or even direct property purchases, investment in the Fund does not count as capital expenditure for English or Scottish local authorities. Dividends are treated as revenue but the General Fund is protected from fluctuations in the unit price. The investment is treated as an available for sale financial asset.

Fund update

The prime focus of our investment strategy is on asset selection and management. We try to identify assets which, through active management, can make a significant contribution to total returns and to the income payment to investors. We also bias the sub-sector weightings to reflect our view of their relative attractiveness. At present, this means a relatively high weighting to industrial and office assets and a relatively low weighting to retail, with no shopping centre or supermarket holdings.

Cash flows into the Fund remained at a high level, with subscriptions of £49m over the quarter. Two assets were added to the portfolio. An industrial warehouse on the M6 at Warrington, on a 4.9% yield and multi-occupied offices in Leeds on an initial yield of 4.5%, but with reversionary potential. Total expenditure was £47m. In addition, six further investments are under offer, and when these are completed the Fund will be fully invested. There have been no sales. Lease management activity, including the important Kingsway/Covent Garden asset in central London, saw the void rate decline to 8.5% from 9.1%. We expect further progress on this in the near future. A rent review on the Enfield industrial warehouse achieved a 40% improvement in income. This, together with lease extensions and new acquisitions have supported income.

Asset allocation at 30 June 2018



The Fund has credit facilities which, at quarter end, were not utilised.

Discrete year total return performance (net)

12 months to 30 June	2018	2017	2016	2015	2014
The Local Authorities' Property Fund†	+9.33%	+7.24%	+5.85%	+16.43%	+17.78%
Benchmark	+10.23%	+5.67%	+8.85%	+15.89%	+15.19%

Annualised total return performance (net)

Performance to 30 June 2018	1 year	3 years	5 years
The Local Authorities' Property Fund†	+9.33%	+7.46%	+11.22%
Benchmark	+10.23%	+8.24%	+11.10%

Benchmark – AREF/IPD™ Other Balanced Property Fund Index *(estimated for the last quarter). Net performance shown after management fees and other expenses. Past performance is no guarantee of future returns.†Distribution for the most recent quarter has been estimated. Source: CCLA

Top ten property holdings – total 38.23%

London, Kingsway
London, Goodman's Yard
London, Stockley Park, Longwalk
Elstree, Centennial Park
Leeds, Park Row
London, Beckton Retail Park
Bristol, Gallagher Retail Park
Bracknell, The Arena
Coventry, Torrington Avenue
Brighton, West Street

Key facts

Total fund size	£1028m
Current borrowing	£0m
Number of holdings	65
	Income units
Offer (buying) price	324.10p (xd)
Net asset value	303.61p (xd)
Bid (selling) price	298.90p (xd)
Launch date	18 April 1972
Unit types	Income
Minimum initial investment	£25,000
Minimum subsequent investment	£10,000
Dealing day	Month end valuation day*
Sedol & ISIN numbers	0521664, GB0005216642
Dividend payment dates	End January, April, July & October
Annual management charge (taken 100% from income)	0.65%

* Instructions for the issue or redemption of units must be received by CCLA no later than 5pm on the business day prior to the Valuation Date. If the valuation day is a bank holiday, the dealing day will be the previous working day. Units are only realisable on each monthly dealing date and redemptions may not be readily realisable; a period of notice not exceeding six months may be imposed for the redemption of units.

Tax reclaims should be addressed to: Glynis Free, Specialist Repayment Team 7 South, Ty - Glas, Cardiff, CF14 8HR.
Telephone 03000 580618, 9.30am - 1pm.

Risk Warning

This document is a financial promotion and is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice. CCLA have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read the Fund Factsheet document and the Scheme Particulars. We strongly recommend you seek independent professional advice prior to investing. Investors should consider the following risk factors identified as specific to the Fund before investing: Counterparty/Tenant/Credit Risk (financial institution/tenants may not pay), Market Risk (investment value affected by market conditions), Operational Risk (general operational risks), Expiry/Maturity Profile (timing of maturity of tenancies), Liquidity Risk (investment in non-readily realisable assets), Interest Rate risk (changes to interest rate affecting income), Concentration Risk (need for diversification and suitability of investment), Business Risk (possibility of lower than anticipated profits). Please see the Fund Scheme Particulars for further details.

Disclosure

Investment in the Fund is for Eligible Local Authorities only. Past performance is not an indicator of future performance. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money. Any forward-looking statements are based upon our current opinions, expectations and projections. We undertake no obligations to update or revise these. Actual results could differ materially from those anticipated. Investments in the Fund and the Fund itself are not covered by the Financial Services Compensation Scheme (FSCS). However, the Manager may pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund. The Fund is an Alternative Investment Fund and an Unregulated Collective Investment Scheme established under a Scheme approved by H M Treasury under Section 11 of the Trustee Investments Act 1961 and is subject to provisions of a Trust Deed dated 6 April 1972 and a supplemental Trust Deed dated 13 September 1978. The Fund operates as an open-ended Fund under Part IV of the schedule to the Financial Services and Markets Act 2000 (Exemption) Order 2001. CCLA Fund Managers Limited (registered in England No. 8735639 at the office below) is authorised and regulated by the Financial Conduct Authority and is the manager of the Local Authorities Property Fund.

CCLA

The Local Authorities' Property Fund

Scheme Information

Scheme Information
The Local Authorities' Property Fund

Effective from May 2018
Issued by CCLA Fund Managers Limited

This Scheme Information summarises the terms and conditions on which the Fund operates. For full information as to the terms, reference should be made to the Fund's Scheme. Copies are available on request from the Manager.

Contents

Definitions

Administrator means CCLA Investment Management Limited or such other successor entity appointed as administrator by the Manager from time to time.

AIF means an alternative investment fund.

AIFM means an alternative investment fund manager and has the same meaning as in the glossary to the FCA Regulations.

AIFMD Legislation means the Alternative Investment Fund Managers Directive 2011/61 EU AIFMD, the Alternative Investment Fund Managers Regulations 2013 and the Commission Delegated Regulation (EU) 231/2013.

Annual Report means the annual report of the Fund prepared by the Trustee.

Council means the members of the Trustee that direct the activities of the Trustee.

Data Protection Legislation means Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, or any successor legislations thereto, and any associated codes, regulation or guidance (as may be amended or replaced from time to time) and any related regulations and guidance and all other laws concerning the processing of data relating to living persons.

Depositary means HSBC Bank plc, or such other entity as may be appointed by the Trustee and the Manager from time to time.

Depositary Services Agreement means the agreement dated 22 July 2014, between the Depositary, the Trustee and the Manager appointing the Depositary and as amended, supplemented or replaced from time to time.

Deposited Property means any Fund Property in respect of which the Trustee has delegated custody to the Depositary in order to comply with the AIFMD Legislation, those assets being financial instruments under the AIFMD Legislation, which are required to be held in custody pursuant to the AIFMD Legislation.

Exemption Order means Part IV of the Schedule to the Financial Services and Markets Act 2000 (Exemption) Order 2001.

External Property Valuer means such valuer or valuers as the Manager shall select from time to time.

FCA means the Financial Conduct Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS or any successor regulatory body.

FCA Regulations means the Handbook of Rules and Guidance issued by the FCA, as amended or replaced from time to time.

FSMA 2000 means the Financial Services and Markets Act 2000.

Fund means the Local Authorities' Property Fund, established under the Scheme and consisting of the Fund Property held on trust by the Trustee.

Fund Property means the assets, investments and property of the Fund from time to time.

Investment Management Agreement means the agreement dated 22 July 2014 between the Manager and the Investment Manager delegating the administration and portfolio management of the Fund Property to the Investment Manager and the Administrator and as amended, supplemented or replaced from time to time.

Investment Manager means CCLA Investment Management Limited.

Local Authority means Local authority, as defined in chapter 3 of the Local Government Act 2003.

Manager means CCLA Fund Managers Limited or such successor body corporate appointed Manager pursuant to the Scheme.

MiFID II means Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and includes where applicable reference to any implementing or supporting Regulations, Directives, or other legislative measures.

Money Laundering Regulations means The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 as may be amended, updated or replaced from time to time.

PRA means the Prudential Regulation Authority of Threadneedle Street, London EC2R 8AH or any successor regulatory body.

Register means the register of Unitholders in the Fund maintained by the Registrar on behalf of the Trustee.

Registrar means CCLA Investment Management Limited appointed by the Trustee pursuant to a registrar agreement dated 1 October 1998 for the purpose of maintaining the Register.

Regulatory Rules means the AIFMD Legislation, FCA Regulations and MiFID II as may be applicable.

Scheme means the scheme approved by HM Treasury under Section 11 Trustee Investments Act 1961 together with the trust deed dated 6 April 1972 establishing the Fund, as amended by a supplemental trust deed dated 13 September 1978.

Scheme Information means these terms and conditions of the Fund as amended or replaced from time to time.

Trustee means the Local Authorities' Mutual Investment Trust.

Unitholder means a Local Authority to which Units in the Fund have been, and continue to be, allocated.

Units means Units in the Fund, or where the context indicates, an investment which represents the rights or interests (howsoever decided) of the participants in a collective investment scheme.

Valuation Date means the end of each calendar month.

References to legislation, statutes or FCA Regulations in this Scheme Information are references to such legislation, statutes or FCA Regulations as amended, updated or replaced from time to time.

The Fund

The Fund is an open-ended, unregulated collective investment scheme established under a Scheme. The Fund is an AIF and is managed by the Manager as an AIFM in accordance with the FCA Regulations and the AIFMD Legislation.

Investment Objectives

The Fund aims to provide investors with a high level of income and long-term capital appreciation.

Investment Policy

The Fund is an actively managed, diversified portfolio of UK commercial property. It will principally invest in UK commercial properties, but may invest in other assets.

Benchmark

IPD™ Other Balanced Property Fund Index.

Target Investors

The Fund is suitable for the long-term funds of any local authority seeking exposure to UK commercial property. The Fund is targeted at investors with an understanding or previous history of investing in similar types of fund, with appropriate levels of risk tolerance and ability to bear loss. Please note that the Manager is not required to assess the suitability of the Fund against each investor.

Our investors must be able to be categorised as professional clients.

Investment Powers

The Fund's powers of investment are not restricted either to particular types of property, or subject to the consent of H M Treasury, to specific parts of the world, but it is the present policy to confine investment to freehold and leasehold commercial and industrial property in the United Kingdom.

The Fund is permitted to finance developments of, or improvements to, both freehold and leasehold property or purchase a right or interest in, or over, freehold or leasehold land, or borrow for the purpose of gearing against the Fund Property, provided that the aggregate borrowing does not exceed 25% of the value of the Fund Property on any quarterly valuation date. With the prior written approval of the Trustee, the Manager may borrow for any purpose set out above up to the limit of 50% of the net asset value of the Fund.

The total amount of borrowing and any change to the level of the maximum borrowing permitted by the Manager will be disclosed to the Unitholders in the Annual Report.

Investment Restrictions

The Fund will maintain a suitable spread between different types of property and geographical location. Importance will be attached to location, standard of construction and quality of covenant with lease terms preferably embodying upwards only rent reviews at intervals of not more than five years.

An amendment to the investment objective or policy of the Fund must be approved by HM Treasury and sanctioned by a special resolution of the Trustee.

Performance Benchmark

The performance benchmark for the Fund is the Balanced Property Unit Trust Index compiled and calculated by Investment Property Databank (IPD) and published by HSBC and the Association of Real Estate Funds (AREF), calculated on a net asset value basis; or such other performance benchmark as the Manager may agree.

Leverage (as defined by the AIFMD Legislation)

This section explains in what circumstances and how the Manager may use leverage as defined by AIFMD Legislation in respect of the Fund and the maximum level of leverage permitted.

Leverage means any method by which the Fund increases its exposure whether through borrowing cash or securities or any other means. The sources of leverage which can be used when managing the Fund include:

- cash borrowing.

Leverage will be used to purchase direct property and may also be used to meet redemption requests when appropriate.

The Manager is required to calculate and monitor the level of leverage of the Fund. Leverage is expressed as a ratio between the exposure of the Fund and the Fund's net asset value (Exposure/NAV). The exposure of the Fund shall be calculated in accordance with the commitment method (Commitment Method) and the gross method (Gross Method), as set out below.

Under the Gross Method, the exposure of Fund is calculated as follows:

1 include the sum of all assets purchased, plus the absolute value of all liabilities;

2 exclude the value of cash and cash equivalents which are highly liquid investments held in the base currency of the Fund, that are:

- readily convertible to a known amount of cash;
- are subject to an insignificant risk of change in value; and
- provide a return no greater than the rate of a three month high quality government bond;

3 derivative instruments are converted into the equivalent position in their underlying assets;

4 exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known;

5 include exposure resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of the cash borrowed;

6 include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements.

Under the Commitment Method, the exposure of a Fund is calculated in the same way as under the Gross Method; however, the exposure of derivative or security positions employed in hedging and netting arrangements are not included in this calculation, provided certain conditions are met.

The maximum level of leverage permitted in respect of the Fund is the same regardless of which calculation method is used as no derivative instruments are used in the fund;
Gross Method: 2.00.

Commitment Method: 2.00.

Further information regarding these different Leverage calculation methods can be found in AIFMD Legislation and the Risk Management Process Document, which is available upon request from the Manager. The total amount of Leverage employed by the Fund will be disclosed in the Fund's Annual Report.

It is not intended that the Depositary or any sub-custodian shall be entitled to re-use for its own benefit and of the Fund's Property it has been entrusted with.

Risks associated with Leverage
The risks associated with Leverage are that a failure by the Fund to perform its obligations under the terms of any loan would permit the lenders to demand early repayment of the finance and to realise any security they have over the Fund's assets.

The Trustee

The Trustee is the trustee of the Fund under the Scheme. The Trustee is a company incorporated under the Companies Act 1948, limited by guarantee and not having a share capital. The Trustee is managed through a Council, the current members of which are detailed in Appendix 1.

The Exemption Order provides that the Trustee of the Fund is exempt from the general prohibition in respect of operating a collective investment scheme. In consequence, the Trustee and its members are not required to be authorised by the FCA or the PRA.

The Trustee is controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and by the Trustee to represent Unitholders.

The Trustee is responsible, for among other things, the custody and control of the Fund Property.

The Manager

CCLA Fund Managers Limited is the appointed AIFM of the Fund. The Manager is a limited liability company incorporated in England and Wales, whose address and details are shown in Appendix 1 of this document.

The Manager is authorised and regulated by the Financial Conduct Authority in the conduct of investment business in the United Kingdom and is entered on the FCA's register under number 611707. The Manager has permission from the FCA to act as a full scope AIFM. The only business activity of the Manager is the management of alternative investment funds as an AIFM. The ultimate holding company of the Manager is CCLA Investment Management Limited, a company incorporated in England and Wales.

The Manager is appointed by the Trustee as the AIFM of the Fund and is responsible for the investment management of the Fund, which includes portfolio management and risk management, and the administration and marketing of the Fund. The Manager's appointment may be terminated by the Trustees serving written notice on the Manager.

Subject to the FCA Regulations and AIFMD Legislation the Manager may delegate (and authorise its delegate to sub-delegate) its duties as AIFM. Under such authority the Manager has delegated the portfolio management of the Fund Property and the administration of the Fund to the Investment Manager and the Administrator under the Investment Management Agreement.

Duties of the Manager

The Manager is responsible for all the investment management and administration services in relation to the Fund. These are:

- the day-to-day management of the Fund including power to buy and sell investments and to operate bank accounts and to borrow;
- the preparation of any valuations or other calculations set out in this Scheme Information;
- the receipt of contributions and the satisfaction of withdrawals;
- the decision as to whether any particular asset is to be accepted as a contribution;
- the keeping of such accounts as the Trustee may require;
- company secretarial services to the Trustee; and
- any matters incidental to the above matters.

The Manager is also responsible for the risk management of the Fund.

No warranty is given by the Manager as to the performance or profitability of the Fund (or any part of it) or that the investment objectives of the Fund will be successfully accomplished.

Investment Manager

The Investment Manager is CCLA Investment Management Limited, a limited liability company registered in England, company No. 2183088. The Investment Manager is authorised and regulated by the Financial Conduct Authority in the conduct of its investment business and has permission that covers the provision of investment advice to a local authority about Units in the Fund. The management of the properties held by the Fund itself is outside the scope of FSMA.

The Investment Manager has been appointed by the Manager under the Investment Management Agreement to manage the Fund Property.

The Administrator

The Manager has appointed the Administrator to carry out certain administrative tasks including the preparation of valuation and other reports together with marketing activities on behalf of the Fund. The Administrator has been appointed under the Investment Management Agreement with the Manager and the Manager meets the fees of the Administrator from the Annual Management Charge.

The Administrator provides the Manager with all administrative services necessary for the management of the Fund. These include:

- the valuation of the Fund Property in conjunction with an appointed External Property Valuer;
- the issue and redemption of Units in the Funds; and
- the payment of dividends and the maintenance of the accounts of the Fund.

The Fund operates on a financial year to 31 March.

The Depositary

The Trustee and the Manager have appointed HSBC Bank plc as the depositary of the Fund under the Depositary Services Agreement.

The Depositary is a public limited company incorporated in England and Wales with company registration number 00014259 with its registered office at 8 Canada Square, London E14 5HQ.

The Depositary is authorised by the Prudential Regulation Authority and is regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the conduct of its investment business in the United Kingdom.

Terms of appointment of the Depositary

The Depositary has certain duties under the AIFMD Legislation which are to provide safekeeping, oversight, cash monitoring and asset verification services in respect of the Fund Property in accordance with the provisions of the applicable FCA Regulations, the AIFMD Legislation and the Scheme.

In accordance with the FCA Regulations and the AIFMD Legislation, the Depositary may, pursuant to the Depositary Services Agreement, delegate the provision of custody services in relation to the Fund. Safekeeping functions may be delegated to one or more sub-custodians on the terms set out in the Depositary Services Agreement and the Depositary will act with reasonable skill, care and diligence in the discharge of its duties. The liability of the Depositary as depositary under the Depositary Services Agreement shall not be affected by the fact that it has entrusted to a third party some or all of the assets in its safekeeping.

The Depositary has not currently delegated the provision of custody services and therefore the Depositary acts as custodian of any Deposited Property.

The fees to which the Depositary is entitled are set out in this Scheme Information.

Under the Depositary Services Agreement, the Depositary's appointment may be terminated on 90 days written notice, subject to a replacement Depositary being appointed.

Liability of the Depositary under the Depositary Services Agreement

Subject to the paragraph below, pursuant to the Depositary Services Agreement, the Depositary will be liable for loss of Deposited Property or Deposited Property in the custody of any sub-custodian (should such sub-custodian be appointed) unless that loss has arisen as a result of an external event beyond its control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary, or where the asset which is lost was held by a sub-custodian appointed in accordance with the Depositary Services Agreement and the transfer of liability from the Depositary to the sub-custodian has been expressly agreed.

The Manager will disclose to potential Unitholders before they invest in the Fund any arrangement made by the Depositary to contractually discharge itself of liability in accordance with the AIFMD Legislation. Currently, it is not envisaged that the Depositary will seek to contractually discharge itself of liability under any circumstances, and so it is not expected that this requirement under the AIFMD Legislation will be applicable to the Fund. In the event that there are any changes to the Depositary's liability under the AIFMD Legislation, the Manager will inform Unitholders of such changes without delay.

However, the Depositary shall not be liable for any indirect, special or consequential losses.

Depositary Conflicts of Interest

Potential conflicts of interest may arise from time to time from the provision by the Trustee and/or its affiliates of other services to the Fund, the Manager, the Investment Manager and/or other parties. Where a conflict or potential conflict of interest arises, the Depositary will have regard to its obligations to the Fund and/or the Manager and will treat fairly the Fund, the Manager and the other funds for which it acts, so far as is practicable. Such potential conflicts of interest are identified, managed and monitored in various other ways including, the hierarchical and functional separation of HSBC's depositary functions from its other potentially conflicting roles and by the Depositary adhering to its "Conflicts of Interest Policy" (a copy of which can be obtained on request from the Head of Compliance for the Depositary).

Title Documents to Fund Property

The Trustee has appointed Hogan Lovells International LLP and DLA Piper (for Scottish Properties) to hold in safe custody the deeds, leases and other documents relating to the Fund Property. The Trustee may review these arrangements form time to time.

Registrar

The Registrar has been appointed to provide registrar services for the Fund and to operate the Fund's Register.

Unitholders' Rights against Service Providers

It should be noted that Unitholders will only be able to exercise their rights directly against the Fund and the Manager and that Unitholders will not have any direct contractual rights against the service providers of the Fund appointed from time to time.

This is without prejudice to any right a Unitholder may have to bring a claim against an FCA authorised service provider, the Manager, the Investment Manager or the Depositary under Section 138D of the Financial Services and Markets Act 2000 (as a result of a breach of the FCA Regulations by such service provider, the Manager, the Investment manager or the Depositary), or any tortious or contractual cause of action.

Units of the Fund

The Fund issues Units which pay dividends quarterly.

Eligible Contributors

Units of the Fund can only be issued to and owned by Local Authorities in England, Wales, Scotland and Northern Ireland which are entitled to receive distributions from the Fund gross of tax.

Any Local Authority applying to participate in the Fund is required to give a declaration of eligibility to participate in the Fund and an indemnity to the Fund for any liabilities arising from such Local Authority's ineligibility to participate in the Fund. The Trustee will require evidence of the Local Authority's eligibility to invest in the Fund and may defer the issue of Units in the Fund until such time as the eligibility of the Local Authority has been confirmed.

Under the Scheme the Trustee has the discretion to refuse to accept any contribution or to refuse to accept any particular asset by way of contribution.

Inducements

It is the Manager's policy not to enter into any soft commission arrangements with its brokers for the supply of goods and services, in return for an agreed volume of business.

In accordance with the Regulatory Rules, the Manager when executing orders or placing orders with other entities in relation to financial instruments for execution on behalf of the Fund must not accept and retain any fees, commission or monetary benefits from a third party (**Third Party Payments**). If the Manager receives any Third Party Payments, the Manager will return the Third Party Payments to the Fund as soon as reasonably possible and will inform Unitholders of the amount received which will be set out in the annual reports.

The Manager must not accept any non-monetary benefits when executing orders or placing orders with other entities for execution in relation to financial instruments on behalf of the Fund, except those which are capable of enhancing the quality of the service provided to the Fund, and which are of a scale and nature such that they could not be judged to impair the Manager's compliance with its duty to act honestly, fairly and professionally in the best interests of the Fund.

Research

Certain brokers provide research services to the Investment Manager, which the Investment Manager pays for out of its own resources. This research is used by the Investment Manager in its fund management process.

Anti-Money Laundering

The Manager is required by law to maintain procedures to combat money laundering. In order to implement these procedures, proof of identity may sometimes be required either when buying or when selling Units from time to time, even of existing Unitholders. We may freeze or return your investments and/or subscription amounts unless or until the necessary evidence of identity can be obtained. In the case where Units are being sold, the remittance of proceeds may be delayed until proof of identity has been obtained. Electronic identity checks may be undertaken on the persons named within the application form.

Telephone and electronic communications

The Manager, in accordance with the Regulatory Rules, must take all reasonable steps to record telephone conversations and keep a copy of electronic communications where such conversations and communications relate to activities in financial instruments as required by the FCA Regulations.

Ceasing to Satisfy Unitholder Eligibility Requirements

If, at any time, a Unitholder ceases to qualify as eligible to be an investor in the Fund:

- the Unitholder must inform the Manager of this fact promptly;
- at the time the Manager becomes aware that the Unitholder has ceased to qualify as eligible to invest in the Fund, the Unitholder will be deemed to have submitted an application for the redemption of all of the Units held by the Unitholder;
- the Unitholder undertakes to indemnify the Fund (on the written demand of the Manager) against all losses suffered by the Fund (including, without limitation, any assessment for tax on capital gains tax or income tax or any other tax to which the Fund would not have been assessed had the Unitholder remained eligible, and all costs and expenses including professional fees incurred in connection with such assessment) as a consequence of the ineligibility of the Unitholder;
- the Unitholder agrees that any redemption monies in relation to the redemption of Units set out above may be retained by the Manager in order to satisfy any losses suffered by the Fund (including, without limitation, any assessment for tax on capital gains tax or income tax or any other tax to which the Fund would not have been assessed had the Unitholder remained eligible, and all costs and expenses including professional fees

incurred in connection with such assessment) as a result of the Unitholder ceasing to qualify as eligible to invest in the Fund; and

- the Unitholder irrevocably appoints one or more of the directors of the Manager as its true and lawful attorney to execute all instruments and other documentation required to effect redemption of the Units of the Unitholder. The Unitholder agrees to ratify all and any acts of the attorney.

Issue and Redemption of Units

Instructions for the issue or redemption of Units must be made in writing to the Manager at Senator House, 85 Queen Victoria Street, London EC4V 4ET.

Purchases or sales of the Fund's Units can be made on any Valuation Date, subject to a period of notice or delay (or successive periods of notice or delay) of such period (or periods) as the Trustee or Manager may impose to permit properties to be sold to meet withdrawals or to protect the interest of Unitholders in the Fund.

In the event of the suspension of redemption requests in full or part (i) those applications for the redemption of Units first made in respect of an earlier month end Valuation Date will be dealt with in priority to those first made in respect of a later month end Valuation Date (ii) without prejudice to (i) all applications for the redemption of Units made in respect of particular month end Valuation Date shall be treated pari passu, irrespective of the time such applications for the redemption of Units were actually received in respect of that month end Valuation Date and (iii) the Manager can accept in part an application for the redemption of Units and, in the event that it does so, such application for redemption of Units (and any other applications for redemption of Units which are to be treated pari passu with it) shall be redeemed in part pro rata.

Application monies paid by cheque should be drawn on an EEA (European Economic Area) banking institution and made payable to The Local Authorities' Property Fund. They must be received by the Manager not later than 5.00pm on the business day prior to the Valuation Date. Application monies so received will not earn interest and will be paid into a Fund bank account. Cheques made payable to CCLA Investment Management Limited or CCLA Fund Managers Limited will be returned.

Contract notes will normally be dispatched by close of business on the next business day after the issue of the Units. The contract note will show inter alia, the number of Units and the issue or redemption price. Units will be issued to the nearest round number.

Redemption instructions must be received by 5.00pm on the business day preceding a Valuation Date and may be subject to a period of notice. Cheques in respect of redemption of Units are issued within four business days after the Valuation Date on which the Units are redeemed.

If a delay is imposed, proceeds of Units redeemed (or the cost of Units issued) will be calculated on the Valuation Date when the Units can be redeemed (or issued) by the Fund and not on the Valuation Date when notice is received.

Minimum Investment

The minimum sum that can be invested initially is £25,000. Thereafter additions to unitholdings can be made of £10,000 or above.

Registration of Units

Units are registered in the name of the Local Authority or in recognised bank nominee names under a designated account. No certificates are issued and the Register is the definitive evidence of title. The Units have no par value and entitle the Unitholder to a proportionate interest in the Fund. Units cannot be assigned or transferred except from one Local Authority to another subject to the payment of Stamp Duty Reserve Tax payable by the Trustee and recharged to the purchaser. The number of Units held will be certified on written request for audit or other purposes.

Secondary Market Units

From time to time the Manager may become aware of opportunities for Unitholders to trade Units other than via the Manager (the Secondary Market). In which case and at its discretion the Manager may, but is not obliged to, inform other Unitholders and or other Local Authorities.

This can enable investors to transfer holdings on terms set between themselves. The investors should instruct the Registrar to amend the Register to record the transfer of the Units to the new Unitholder.

Local Authorities should note that the Manager does not make a market and, therefore, may not be aware of every opportunity that exists to trade on the secondary market.

Exchanging Existing Property

The Fund may consider accepting existing properties in exchange for Units of the Fund. However, the Trustee may do so but only if it is judged to be in the best interests of existing Unitholders of the Fund and on the basis of an independent professional valuation. If accepted, the exchange would be made at the open market value of the property at the net asset value of the Units issued. The Trustee has absolute discretion as to which properties it will accept.

Risk Factors

General risks

Past performance is not necessarily a guide to the future. The price of Units and income from them may fall as well as rise and a Unitholder may not recover the full amount invested. There can be no assurance that the Fund will achieve its investment objective or that a Unitholder will recover the full amount invested in the Fund. The capital return and income of the Fund is based on the capital appreciation and income on the Fund Property it holds, less expenses incurred. Therefore, the Fund's return may be expected to fluctuate in response to changes in such capital appreciation or income.

The Fund is permitted to borrow up to 50% of the value of the Fund in order to purchase direct properties. A failure by the Fund to perform its obligations under the terms of any such loan would permit the lenders to demand early repayment of the finance and to realise any security they have over the Fund's Property. Borrowing also increases risk by magnifying capital and income performance, gains and losses.

Diversification risk

The Fund is invested in direct property and assumes the property related risks outlined under 'Direct Property Risks'. The Fund invests in UK properties only and as such is not as diversified as if it were invested across several asset classes and/or several geographical locations. Any change in legal, tax or regulatory requirements affecting the Fund or its investments may be amplified by this lack of diversification.

Liquidity risk

Direct property is an illiquid investment relative to other asset classes. The Units are intended only for long-term investment and are not suitable for money to be spent in the near future. Investments are realisable on each monthly Valuation Date but, due to the illiquid nature of the underlying assets, a period of notice may be imposed for the redemption of Units.

Risk associated with investment in other collective investment schemes

The Fund may invest in one or more collective investment schemes including schemes that are managed by the manager or affiliated companies. In some cases these collective investment schemes may be unregulated. Other collective investment schemes may be illiquid and will likely be exposed to the same risks as the Fund and as described elsewhere in this document.

Direct Property Risks

Property and property related assets are inherently difficult to value because of the individual nature of each property. As a result, valuations are open to substantial subjectivity. There is no assurance that the valuations of the properties will reflect the sale price achieved even where such sale occurs shortly after a valuation point.

The value of property could adversely be affected by a downturn in the property market in terms of capital value or a weakening of rental yields. The income received is dependent to a large extent upon the occupancy levels of any property and the rents paid by the tenants.

Rental revenues and property values are affected by changes in the general economic climate and local conditions. Property values are dependent in particular on current rental values, prospective rental growth, lease lengths, tenant creditworthiness and the valuation yield (which is itself related to interest rates, the market appetite for property investments in general and with reference to the specific property in question) together with the nature, location and physical condition of the property concerned.

The value of properties can also be negatively impacted by changes in planning laws.

Additional risks may arise in the event that there is a failure by a counterparty to perform its obligations under a contract or other agreement (including failure arising from the insolvency of a tenant of a property).

Property ownership assumes associated risks including, without limitation, environmental and third party liability risk the value of which may exceed the value of the property itself.

Risk Management Process and Liquidity Management

The Manager employs a risk management process, including the use of appropriate stress-testing procedures, which enables it to identify measure, manage and monitor at any time the relevant risks of the positions to which the Fund is or may be exposed and their contribution to the overall risk profile of the Fund.

The Manager maintains a liquidity management process to monitor the liquidity risk of the Fund, which includes, among other tools and methods of measurement, the use of stress tests under both normal and exceptional liquidity conditions.

The liquidity management systems and procedures allow the Manager to apply various tools and arrangements necessary to ensure that the Fund is sufficiently liquid to respond appropriately to redemption requests. In normal circumstances, redemption requests will be processed as set out in this Scheme Information.

Other arrangements may also be used in response to redemption requests, including, in extreme cases, temporary suspension which, if activated, will restrict the redemption rights investors benefit from in normal circumstances as set out in this Scheme Information.

Responsible Property Investment

The Fund is managed in line with the Manager's Responsible Property Investment Policy. This integrates material environmental, social and governance issues into the investment process including pre-purchase due diligence and the ongoing management of properties in the Fund. Copies of the policy are available on request.

The manager is a signatory to the United Nations backed Principles of Responsible Investment (PRI). The annual PRI assessment is available on the Manager's website.

Valuations

The Fund is valued monthly on the Valuation Date for the issue and redemption of Units and the value of the Fund shall be the value of its assets, including capital cash, less the value of its liabilities. The valuation of Fund property is determined as follows;

- Units in a collective investment scheme – if the scheme is singled priced then that price will be used. If the scheme is dual priced the mid-market price will be used.
- Direct Property – an External Property Valuer is responsible for providing property values for the Fund. All properties are valued at every month end at Open Market Valuation in accordance with the Red Book of the Royal Institute of Chartered Surveyors. Additions to the portfolio are valued externally after acquisition.

To calculate the issue and redemption price (offer and bid prices) of the Units the net capital asset value of the Fund shall be divided by the number of Units in issue. The Trustee may increase the issue price by such a surcharge and reduce the redemption price by such a deduction as in either case it may think fit with a view to protecting the Unitholders of subsisting Units from being adversely affected in respect of the values of the Units by the effects of contributions and/or withdrawals. The Trustee may vary the amount of the surcharge or deduction at any time.

Publication of Prices

The Fund's Unit price is published on the CCLA website.

Management Charges

Fees

The Manager is entitled to its pro rata fees and expenses as detailed in this Scheme Information to the date of termination of its appointment as Manager of the Fund and any additional expenses necessarily incurred in settling or realising any outstanding obligations. The Manager shall be responsible for paying the fees of the Investment Manager and the Administrator. These fees will be met from the Annual Management Charge.

Annual Management Charge

The Manager makes an annual charge on the assets of the Fund at a fixed rate of 0.65% per annum (plus VAT if applicable and if any). The Annual Management Charge is based on the valuation of the Fund on the last day of the preceding month. The charge accrues daily and is deducted from the income of the Fund on the last business day of each month. The Manager makes no charge in respect of transactions carried out by the Fund.

Preliminary Charge

The Manager makes no preliminary charge on the issue of Units.

Depositary Fees, Charges and Expenses

The Depositary is entitled to a periodic fee which is agreed between the Manager, the Depositary and the Trustee. The Depositary is paid an annual fee of £15,000. This is charged to the Fund and paid on a monthly basis.

Costs and Expenses

The following expenses incurred for the Fund shall be paid either directly by the Fund or by the Trustees and recharged to the Fund:

- legal and other costs associated with obtaining and maintaining any authorisation or registration of the Fund;
- any governmental duties payable in respect of the issue of the Fund's Units;
- cost of property transactions including, but not limited to, stamp duty, agents and survey fees
- External Property Valuer's fees;
- legal fees;
- professional and agency fees;
- audit fees;
- bank charges;

- any rates, taxes, insurance premiums, costs of security, maintenance and repairs and other costs and service charges related to specific properties which cannot be recovered;
- the fee of any external property adviser;
- cost of liability insurance for the Trustee;
- costs incurred in respect of Unitholder meetings or in modifying the constitution of the Fund; and
- such other fees or expenses as may from time to time be agreed with the Trustee.

Taxation

The Fund is not subject to capital gains tax or income tax. Dividends are paid gross.

This is our understanding of the tax position as at the date of this Scheme Information. The tax position may change in the future. Investors should obtain their own tax advice in respect of their own position.

FATCA

The UK International Tax Compliance (United States of America) Regulations 2014 (the UK Regulations) came into force on 30 June 2014 and implement the "Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the United States of America to improve International Tax Compliance and to implement FATCA" (commonly known as FATCA). Under UK Regulations, Financial Institutions must identify all reportable accounts and establish the tax residency of all account holders not just in respect of US persons. More background on how FATCA has been implemented in the UK can be found in HMRC's Guidance Notes at https://www.gov.uk/government/publications/uk-us-automatic-exchange-of-information-agreement/uk-us-automatic-exchange-of-information-agreement.

In order to comply with the UK Regulations, the Manager may be required to collect certain information about each Unitholder's tax residence(s), and determine whether it is obliged to submit certain account information to UK tax authorities, who may pass it on to other tax authorities.

Unitholders may also be asked to provide additional information to the Manager to enable the Fund to satisfy its obligations. Institutional Unitholders may be required to provide a Global Intermediary Identifications Number (GIIN). Failure to provide requested information may subject a Unitholder to liability for any resulting US withholding taxes, US tax information reporting and/or mandatory redemption, transfer or other termination of the Unitholder's interest in its Units. The GIIN for the Fund is available on request.

By signing the application form to subscribe for Units, each Unitholder agrees and acknowledges that, in certain circumstances, the Manager will be obliged to share this information with UK tax authorities, who may pass it on to other tax authorities. Unitholders are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their interest in the Fund.

Dividends

Dividends are paid quarterly to a nominated bank account in respect of the three months to the end of June, September, December and March. They are paid one month after each quarter end. Income is calculated as income receivable by the Fund whether already received or not, less any costs and expenses accrued to date. Income is allocated to Unitholders monthly but is not included in the Unit price.

Regular Statements

Statements of Units, management expenses and dividends paid are provided as at 30 September and 31 March.

The Manager reserves the right to charge reasonable expenses in relation to printing and postage of any additional documentation required by a Unitholder.

Accounts of the Fund

The report and accounts of the Fund are prepared at 30 September and 31 March, being the half year and year ends respectively.

The Annual Report, in addition to the regular statements detailed above includes, amongst other things, information on the Fund's;

- assets and liabilities (including the percentage of the Fund Property that is subject to special arrangements arising from its illiquid nature);
- income and expenditure;
- total amount of leverage employed;
- activities of the financial year; and
- risk profile.

The Annual Report will also include details of:

- the Manager's risk management systems;
- details of any changes to the Fund's liquidity management;
- the remuneration paid by the Manager to its staff;
- any material changes to the information in the Scheme Information;
- any change to the Fund's use of leverage, including the maximum level of Leverage the Fund may employ; and
- any further disclosures required by AIFMD.

All accounts are audited. The Manager will make available, free of charge on its website (www.ccla.co.uk) the Fund's Annual Report and Accounts for the period to 31 March (the accounting reference date) and half year report and accounts for the period to 30 September (the interim accounting date).

Fair Treatment of Unitholders

The Manager has established policies and procedures and made arrangements to ensure the fair treatment of Unitholders. Such arrangements include, but are not limited to, ensuring that no one or more Unitholders are given preferential treatment over any rights and obligations in relation to their investment in the Fund. All rights and obligations to

Unitholders, including those related to subscription and redemption requests, are set out in this Scheme Information.

The Manager has established fair and transparent pricing models and valuation systems and procedures for the Fund Property and endeavours to ensure that there are no undue costs being charged to the Fund and the Unitholders.

The Manager has also established procedures to identify, manage and monitor conflicts of interest and, where applicable, disclose those conflicts of interest to prevent them from adversely affecting the interests of the Unitholders. The Manager has established a process for recognising and dealing with complaints fairly.

Material Interests

The Investment Manager operates a client relationship management service.

The Trustee owns approximately 14% of the share capital of the Investment Manager.

The Manager is a wholly-owned subsidiary of the Investment Manager.

Conflicts of Interest

The Manager, the Depositary, the Investment Manager and the Administrator are or may be involved in other financial, investment and professional activities which may, on occasion, cause conflicts of interest in the management of the Fund. In addition, the Fund may enter into transactions at arm's length with companies in the same group as the Manager.

The Depositary may, from time to time, act as depositary of other funds.

Each of the parties will, to the extent of their ability and in compliance with the FCA Regulations and AIFMD Legislation, ensure that the performance of their respective duties will not be impaired by any such involvement.

The Manager and the Investment Manager operate a Conflicts of Interest Policy (Policy) to ensure that their clients are fairly treated. The Policy seeks to avoid circumstances which they consider may give rise to potential conflicts of interest and materially disadvantage their clients. The Policy describes the controls and arrangements for preventing the Manager, the Investment Manager and their staff from:

- favouring one client over another;
- making a financial gain, or avoiding a financial loss, at the expense of the client;
- a member of staff being favoured over a client;
- providing to (or receiving from) a person other than the client, an inducement in relation to a service provided to the client, in the form of a financial interest; and
- favouring the Manager's or the Investment Manager's shareholders over a client.

Full details of the Policy are available on request.

Authority to Open and Operate an Account

The Manager is entitled to assume that the person(s) signing an Application Form to purchase the Fund's Units in a Local Authority's name are duly authorised. In the case of sales, money is only remitted to the Local Authority or its bank but not to third parties. Where instructions are received in respect of Units held in a nominee name, the written confirmation from the Local Authority may be required by the Manager.

Trustee Meetings

The Trustee and the Manager meet at least half yearly and the Trustee receives quarterly written reports from the Manager. The Trustee's property sub-committee meets each quarter with the Manager and Investment Manager.

Winding Up

The Trustee has the power to wind up the Fund in accordance with the Scheme.

Data Protection

The Manager is a data controller in accordance with the Data Protection Legislation and will hold personal data about each Unitholder's representatives (referred to below as "representatives") that has been supplied to the Manager (whether by the representative, a Unitholder or otherwise) as set out in CCLA's Privacy Notice. Each Unitholder agrees to ensure that the contact details and other personal data provided for it and its representatives to the Manager remains up to date at all times.

The Unitholder acknowledges that the Fund may invest in investment schemes operated and managed by the Manager and/or by third parties (referred to below as "investment schemes") and that the Manager may need to pass data, including personal data regarding the representatives, to those investment schemes. The Manager will not pass on any personal data to any other third party or permit the investment schemes to pass the personal data to third parties except: (i) where, in relation to the performance of its services to the Unitholder, the Manager (or the investment scheme) sub-contracts part of the services or any support services; (ii) as agreed by the Unitholder; or (iii) where required to do so for legal or regulatory purposes as set out in CCLA's Privacy Notice.

The Manager (and the investment schemes) may keep records of all business transactions for at least five years. Unitholders have a right to inspect copies of contract notes and entries in the Manager's books or computerised records relating to their transactions. Their representatives also have certain rights under applicable data protection legislation, including the right to access copies of their personal data and change the permissions given in respect of the processing of it. The Manager will treat all Unitholders' records as confidential and so reserves the right to provide copies of the Unitholder/representative's particular record, rather than allow access to files which may contain information about other Unitholders. Requests to access the above records/personal data or to exercise any other rights under applicable data protection legislation should be directed to The Data Protection Adviser at the Manager's office, Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

Complaints

Complaints concerning the operation or marketing of the Fund should be referred in writing to:

- the Manager at; The Head of Client Services, CCLA Fund Managers Limited, 85 Queen Victoria Street, London, EC4V 4ET; or
- the Investment Manager at; The Head of Client Services, CCLA Investment Management Limited, 85 Queen Victoria Street, London, EC4V 4ET; or
- the Trustee at; The Secretary, Local Authorities' Mutual Investment Trust, Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

Compensation

As the Fund is not an Authorised Unit Trust within the meaning of the FSMA 2000, investments in the Fund are not covered by the Financial Services Compensation Scheme. The Manager will pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund.

Further information is available from the Manager on request or via www.fscs.org.uk or at their address below;

Financial Services Compensation Scheme,
10th Floor,
Beaufort House,
15 St Botolph Street,
London, EC3A 7QU.

The Manager covers its potential liability risks arising from professional liability by holding appropriate professional indemnity insurance.

Acceptance of Terms and Conditions

By completing the Application Form, the Unitholder acknowledges and accepts the terms and conditions and agrees to be bound by the provisions of this Scheme Information and of the Scheme.

Amendments

The Trustee and the Manager reserve the right to amend the Scheme Information at any time. Subject, where applicable, to the approval of the Treasury where necessary as set out in the Scheme and this Scheme Information, and in relation to any changes to the investment objective and policy only in accordance with the provisions dealing with such changes as set out in this Scheme Information. Unitholders will be notified of any amendment material to them.

The Manager will endeavour to give Unitholders 90 days' notice of significant changes to the Scheme Information. When changes are required for regulatory or other reasons it may not always be possible to give 90 days' notice.

In certain limited circumstances the Trustee and/or the Manager (as appropriate) may decide that very minor changes to the investment policy and/or objective of the Fund (for example, those aimed at clarification of the investment objective and/or policy) would be considered a "notifiable change" within the meaning in the FCA Regulations. Such alterations may be made by providing Unitholders with access to an updated copy of these Scheme Particulars. All current schemes are available on www.ccla.co.uk or by request please contact our Client Services department on 0800 022 3505.

Applicable Law

Any agreement to invest in the Fund is governed by English law and subject to all applicable laws, regulations and rules. In the event of a conflict between such agreement and any such laws, regulations and rules, the latter shall prevail.

Scheme Information

Any person relying on the information contained in this document which was current at the date shown, should check with the Manager that the document is the most current version and that no revisions or corrections have been made to the information contained herein. Copies of this document are available free of charge.

APPENDIX 1 - Directory

The Council of the Trustee

The Trustee, The Local Authorities' Mutual Investment Trust, is a company limited by guarantee and not having a share capital. The Trustee operates through a Council.

The members of the Council are:
T. Salmon OBE (Chairman)
T. Beattie
P. Clokie OBE
E. Eyre
P. Findlow
R. Kemp CBE
A. Naylor
S. Pickup OBE
S. Timoney

The Manager

The Manager, CCLA Fund Managers Limited, a wholly-owned subsidiary of the Investment Manager, is a limited liability company, registered in England and Wales with Company Number 08735369 and with its registered office at Senator House, 85 Queen Victoria Street, London EC4V 4ET.

Incorporated on 16 October 2013. The directors of the Manager are:
R. Horlick (Chairman)*
J. Bevan
A. McMillan
R. Norris*
M. Quicke
A. Robinson
T. Salmon*
J. Tattersall*
R. Williams*
(* indicates a Non-Executive Director)

CCLA Fund Managers Limited is authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS.

The Investment Manager

The Investment Manager, CCLA Investment Management Limited, is a limited liability company registered in England and Wales with Company Number 2183088 and with its registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

Incorporated on 26 October 1987. The directors of the Investment Manager are:
R. Horlick (Chairman)*
J. Bevan
A. McMillan
R. Norris*
M. Quicke
A. Robinson
T. Salmon*
J. Tattersall*
R. Williams*
*Non-Executive Director

CCLA Investment Management Limited is authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS.

The Customer Telephone Helpline Number is 0800 022 3505. Please note telephone calls may be recorded.

The Depositary

The Depositary of the Fund is HSBC Bank plc, a public limited company registered in England and Wales with its registered address at 8 Canada Square, London E14 5HQ. The Depositary is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Custodian

The Custodian of the Fund is HSBC Bank plc, a public limited company registered in England and Wales with its registered address at 8 Canada Square, London E14 5HQ. The Custodian is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Registrar

The Registrar of the Fund is CCLA Investment Management Limited. The Register of Unitholders may be inspected at the registered office of CCLA Investment Management Limited, at Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

The Administrator

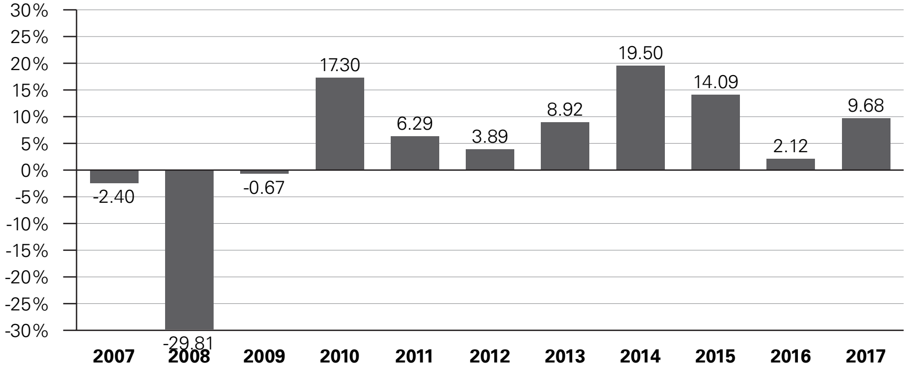
The Administrator of the Fund is CCLA Investment Management Limited, Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

The Auditor

The Auditor of the Fund is PricewaterhouseCoopers LLP, a limited liability partnership with an office at 7 More London Riverside, London SE1 2RT.

APPENDIX 2 - Past Net Performance

Net performance shown after management fees and other expenses.



The Fund started on April 1972. Past performance is no guarantee of future returns.

CCLA

CCLA Client Services:
Freephone: 0800 022 3505
or visit www.ccla.co.uk