Appendix G

Glossary of Types of Alternative Investment Instruments

Property Funds
Property Funds involve the indirect cash investment in property through UK authorised unit trusts or investment trusts. Property funds invest in a variety of property types (industrial, commercial, retail etc.) and regions. There are currently around 16 “Other Balanced Funds”, 12 where the investment would be deemed capital expenditure and would need to be on the balance sheet unlike investments which are revenue expenditure. There are 4 Other Balanced Funds which would be deemed revenue expenditure for the Council. Property Funds are not credit rated and performance is generated from underlying income from tenants and capital values of properties held in the fund which may fluctuate. Typically, this means that investments need to be held for the long term (at least 5 years) to mitigate the risk.

Enhanced Cash Funds (ECF)
Enhanced Cash Funds (ECF) are longer dated than AAA rated traditional Money Market Funds (MMF) and do not have instant access. ECF have a variable net asset value (VNAV), which means the assets are marked to market on a daily basis and the unit price adjusted accordingly. ECF fund managers are typically the same ones who run traditional MMF. There is a very large universe of funds operated by a significant number of providers. ECF are mostly AAA credit rated and are suitable for investments of 2 to 3 months as a minimum as this would allow deal with any fluctuations in the unit price.

Certificates of Deposits
A Certificate of Deposits (CDs) is a receipt issued by a depository institution (such as a bank, credit union, or a finance or insurance company) to a depositor and held in a custodian account. The CD states the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring a potential loss. CD’s are negotiable instruments and can be traded in a secondary market. CDs are credit rated and the same methodology would be used as for fixed term deposits with the duration of the deposit made being based on Capita’s credit rating list.

Corporate Bonds
Corporate bonds are certificates of debt issued by major companies and financial institutions to raise long term finance. When you buy bonds you are lending money to a company in exchange for an IOU. The corporate bond has fixed stream of income in the form of interest over its term and at maturity the principle invested is returned in full. Corporate bonds are negotiable and traded in the secondary market. Corporate bonds with financial institutions are credit rated and the Council would consider bonds with a minimum credit rating AA- or higher and apply the Capita’s credit rating list to determine the duration of the investment in the same way as applied to fixed term deposits.

Short Dated Corporate Bond Funds
The Council making an investment in a Short Dated Corporate Bond Funds would mean that it would spread the risk involved with direct investment in corporate bonds, by investing in a wide spectrum of different credit profiled corporate bonds.