COUNCIL – 21 JULY 2009

INVESTMENT STRATEGY REVIEW

Report of the:	Deputy Chief Executive & Director of Corporate Resources
Also considered by:	Finance Advisory Group - 17 June 2009 Performance & Governance Committee – 23 June 2009 Cabinet - 9 July 2009
Status:	For decision

Executive Summary: Members approved the Investment Strategy as part of the budget-setting process in February 2009. In considering that Strategy Members were advised that, given the current uncertainties in the financial sector, it may be necessary to review the Strategy during the year.

Following revisions to building society credit ratings, it is considered that the Council should review its decision to continue to invest in unrated building societies. As this would significantly reduce the number of institutions available for future investments, Members are asked to consider possible alternative options for investment.

The Finance Advisory Group and Performance and Governance Committee have considered the available options and their recommendation is to reintroduce nationalised and Government majority owned banks to the lending list, together with an increase in the group limit (to £4m) for these banks and Santander Group. They also recommended that no new investments be placed with building societies with a rating below AA-. Their recommendations are set out in full in paragraph 9.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. B. Ramsay

Head of Service Head of Finance and Human Resources – Mrs. Tricia Marshall

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Recommendations: a) That the Investment Strategy for 2009/10 be amended to remove unrated building societies from the lending list and that future lending to building societies be based on the same credit rating requirements applied to banks (AA-); and

b) Members' views are requested as to which investment options to add to the current Strategy, in order to provide sufficient counterparties to which to lend.

Background

1 In order to comply with the requirements of the Local Government Act 2003 and supporting regulations, the Council must prepare an annual investment strategy in advance of each forthcoming financial year. The Council has regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:

(a) the security of capital and

(b) the liquidity of its investments.

2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The Council approved the current Investment Strategy for 2009/10 at the Council meeting on 24 February 2009.

3 Credit ratings form the basis of investment decisions and the matrix supplied by the Council's treasury advisers, Sector Treasury Services Ltd, encapsulates credit rating data to provide suggested counterparties and maturity limits.

Introduction

4 Over the last few weeks and months, there have been a number of down-gradings in the credit ratings of banks and other institutions, most notably building societies. The recent down-grades in the building society sector result from Moodys' rating agency having carried out stress testing to see how the mutuals would perform against a base case scenario of a 40% fall in house prices. Moodys also stress-tested a more extreme scenario based on a 60% fall and compared both of these scenarios with exposure to different asset classes (prime, sub-prime, buy-to-let, self-certified etc.) The Moodys' down-grades have been followed by similar ones from Fitch Ratings. The building societies have reacted to the down-grades by reemphasising their profitability, solid business performance during 2008 and strong capital positions. They also call into question the credibility of the credit ratings agencies in view of their overly pessimistic outlook for the housing market.

5 A briefing note, produced by Sector, on the advantages and disadvantages of using building societies to place investments appears at Appendix A.

6 Historically, this Council has placed a large proportion of its investments in the building society sector. In view of the down-grades, no further deposits are being made in building societies for the time being. This presents severe practical difficulties in the day-to-day decision making process as the remaining lending list contains too few counterparties for operational efficiency.

7 By way of example, on 26th May 2009, an investment of £1m with a building society matured. Reinvestment with a building society not being an option, the

broker sought bids from UK banks for us. RBS and Lloyds were in the market, but have been removed from our lending list due their credit ratings being downgraded once the government had taken part control. HSBC were not interested in sums below £10m and Barclays not below £5m. We do have a direct arrangement with Barclays for lower sums, but any further investment would have breached the £2m counterparty limit. The only available options were with Clydesdale Bank at a rate inferior to others in the market or to Abbey. We are already exposed to the Santander group (Abbey, Alliance & Leicester and Bradford & Bingley) via a notice account.

8 A review of the current Investment Strategy is therefore required and proposals for future investment options were put forward in this report for consideration by the Finance Advisory Group and the Performance and Governance Committee, for them to make recommendations on the Strategy to Cabinet and Full Council.

Recommendations from Finance Advisory Group and Performance and Governance Committee

9 The Finance Advisory Group and Performance and Governance Committee considered the investment options and their meetings on 17 and 23 June and made the following recommendations:

a) That it be recommended to Cabinet that the Investment Strategy for 2009/10 be amended to remove unrated building societies from the lending list;

b) that lending to nationalised and government majority owned banks be reintroduced to a limit of £4m per group (£2m per institution within that group) i.e.,

Lloyds Group – Bank of Scotland Plc, Lloyds TSB Bank plc and Cheltenham and Gloucester;

Royal Bank of Scotland Group – ABN AMRO Bank NV, National Westminster Bank Plc, Royal Bank of Scotland Plc and Ulster Bank Ltd; and

Northern Rock Plc;

c) that the group limit for Santander be increased to £4m (£2m per institution within that group, e.g., Abbey National Plc, Alliance and Leicester Plc and Bradford and Bingley); and

d) that no lending take place with building societies with a credit rating of below AA- (the same credit criteria for banks).

Future Investment Options

10 The current Policy (see Appendix B) can be summarised as:

- Investments are limited to 15% of total fund for each institution or institution group.
- Investments are made only in UK or EU institutions, with a limit of 15% in any one foreign country.
- Investments are limited to £2m per counterparty.
- Minimum credit criteria: AA- (excluding building societies)
- Building societies –asset size used as a measure of creditworthiness.

11 The Strategy also allows investment in Government Bonds, the Government's Debt Management Account Deposit Facility (DMADF), Money Market Funds and lending to other authorities but in practice none of these options except the DMADF have been used to date. Similarly, no investments have been placed with EU institutions, although this is allowed by the current Policy.

12 The following table sets out possible options for future investments.

	Option	**Advantages**	**Disadvantages**
a	Do not invest in building societies unless they have a credit rating of AA- or better	Building societies' credit ratings have recently been downgraded, so this would reduce the risk to the Council of losing its principal.	Historically, smaller unrated building societies have provided competitive interest rates. Smaller building societies have been more willing than larger societies or banks to accept the size of investments (say £1m) placed by SDC. Currently, only the Nationwide Building Society meets the criteria.
b	Use less demanding rating criteria (e.g. A rather than AA-) linked to shorter investment periods and/or smaller amounts	Increased pool of potential counterparties. The Sector investment matrix is based on allowing short-term investments with A rated institutions	Increased risk of loss of principal. In the case of building societies, potential counterparties would only increase to three in the Sector matrix.

	Option	Advantages	Disadvantages
c	Increase the limit on the amount that can be placed with any one institution/group to £4m or 20% of total investments	Larger, more creditworthy institutions may be interested in taking investments from the Council The work involved in managing the investment portfolio would reduce as there would be fewer investments.	Risk is confined to fewer institutions.
d	Base criteria for unrated building societies on an analysis of building societies' accounts (available from Sector annually)	This would allow continued investment in small building societies offering competitive interest rates. In the last report (Summer 2008), Dunfermline Building Society was flagged as having bottom line profits significantly affected by exceptional or unusual items. The Society was later taken over by the Nationwide.	This would be very time consuming and information will not necessarily be up to date as it is based on annual accounts.
e	Re-allow investment in nationalised banks (Northern Rock, Lloyds TSB, RBS, Nat West, Bank of Scotland)	These institutions are either nationalised or part-owned by the Government and so should be a secure.	Not all are credit rated and the ratings agencies find it difficult to assess their creditworthiness. They have nevertheless been reintroduced into the Sector matrix on the basis of government support being available.
f	Invest in Government securities (Bonds issued by the British Government paying out a fixed cash payment until maturity)	Bonds can be traded	A capital loss could be suffered. The Council does not currently have knowledge or expertise in this activity.
g	Use the Debt Management Account Deposit Facility (Government)	A very safe investment	Returns are very low (currently between 0.3% and 0.45%)

	Option	Advantages	Disadvantages
h	Invest in Money Market Funds	These are pooled investment products linked to AAA rated banks and institutions and are becoming more popular. Instant access to cash. No capital loss.	Rates of return can vary depending on appetite for risk. Those Funds that are investing heavily in government securities will return less than those with significant exposure to the Repo or CD markets, for example Large variety of products are available. Lack of knowledge and expertise.
i	Lend to other local authorities	Low risk	Opportunities to lend to other authorities are very rare and rates are generally no better than those in option h above.
j	Pass sums to a broker for investment	A broker would act as a fund manager for a significant amount of money.	All risks remain with SDC.

Treasury Management advice

13 The Sector credit rating matrix has been further strengthened in recent weeks by a subjective overlay using Credit Default Swap (CDS) data to indicate likely movement in ratings ahead of official pronouncements from the credit rating agencies. This is achieved by tracking movement in an individual institution's CDS spread and comparing it with a recognised market benchmark. Significant downward movement beyond a specified percentage of the benchmark triggers a suggested adjustment in Sector's recommended maturity limit or even a recommendation of no further lending. Sector no longer recommend lending beyond one year in any event.

14 By utilising this matrix, Members could have more confidence in the credit rating system knowing that potential issues with a particular institution may be flagged up earlier than would otherwise have been expected. Some of the issues detailed in the above table would also be addressed. For example, the Sector matrix contains all the UK banks, including those nationalised or part-owned by the government. A significant number of foreign banks, both EU and non-EU based are in the matrix as well and many are intrinsically more sound than UK banks. The matrix also lists a country's Sovereign Rating and this can be used as a means of restricting investment to countries with stronger economies. The UK currently has a AAA Sovereign Rating, which recently has been called into question by the ratings agencies and, indeed, Standard &

Poors has revised its outlook from stable to negative indicating a potential down-grade (although this may not necessarily come to pass).

15 One major disadvantage of using CDS spreads is that not all institutions are monitored because they do not have an actively traded CDS spread. In these cases, the sole reliance would be on the credit ratings.

16 The Council is due to seek competitive quotes for its Treasury Management advice in the next few months.

Conclusions

17 Officers have not placed any new investments with building societies, due to uncertainties around their financial stability. This has presented operational difficulties in finding sufficient options when investments need to be placed.

18 The table above sets out a number of ways in which the pool of potential investment options could be increased. Some of these would be relatively straightforward to action, such as permitting investments in nationalised banks. Others, such as the use of Money Market Funds or Government Bonds, would require further investigation and assessment.

19 The uncertainty over the outlook for the UK's Sovereign Rating appears to strengthen the case for placing investments with institutions based in AAA rated EU countries. Members might now feel comfortable in reintroducing lending to EU based banks. Some are far sounder than their UK equivalents and merit serious consideration for the placing of funds. The Swedish banking model has come in for praise in the financial press and one bank in particular, Svenska Handelsbanken, received a glowing report in a recent article in The Economist for the way it is managed and run. The bank operates a notice account available to local authorities paying reasonable rates of interest and is recommended for lending up to 6 months according to the Sector matrix.

20 Money Market Funds are becoming increasingly popular amongst local authorities and are something to which Members should give serious consideration. Briefly, Money Market Funds invest in a range of short term assets with the highest level of creditworthiness. This structure is designed to minimise risk and allow investors ready access to their cash. Qualifying Funds must be denominated in sterling, satisfy EU directives on collective investment schemes, and be credit rated AAAm as denoted by Standard & Poors, Aaa MR1+ as denoted by Moodys and/or AAA V1+ as denoted by Fitch.

21 There are a host of providers in the market and it would be necessary to find one or more that best suit the Council's appetite for risk balanced against the rate of return. The Funds that concentrate their investments in government backed securities will return less than those who have greater exposure to Time Deposits, CD's and Commercial Paper. The major attraction of Money Market Funds is the collective deposit aspect. Our investment would be a small part of a much larger pool where risk will have been spread over a multitude of products and counterparties.

Key Implications

Financial implications

22 The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority with interest receipts in the order of £0.6m supporting the revenue budget for 2009/10. The security of its capital and liquidity of its investments is of paramount importance. Reduced use of building societies for deposits increases the risk of not achieving the interest receipts budget for 2009/10.

23 The potential loss of interest by investing in the Government's Debt Management Account Deposit Facility instead of the nationalised banks is £9,000 per annum for every £1m invested.

Legal, Human Rights etc.

24 None.

Impact on and Outcomes for the Community

25 Investment income is used to support the revenue budget, providing funding for Council services that would otherwise have to be met from higher fees and charges or by service reductions.

Risk Assessment Statement

26 Treasury management has two main risks:-

- Fluctuations in interest rates can result in a reduction in income from investments; and
- a counterparty to which the Council has lent money fails to repay the loan at the required time.

27 These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

Sources of Information:	Annual Investment Strategy report (Cabinet 12 February 2009, Performance and Governance Committee 17 February 2009) Icelandic Banks and General Investment Updates report (Performance and Governance 19 May 2009) Sector Treasury Services Ltd. - economic updates and credit rating changes
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Briefing Note for Sevenoaks DC in Respect of the Use of Building Societies

This note has been prepared so that the Authority is clear as to Sector's view in respect of the use of the building society sector.

First, and foremost, Sector does not provide recommendations as to which counterparties should be used for lending surplus cash to. However, it does suggest that credit ratings should underpin any counterparty selection process and that this is the most objective way to determine the names that are used.

To shape an authority's lending policy, Sector suggests that close attention is paid to both the CLG guidance on investment activity and CIPFA's Code of Practice on Treasury Management. With these parameters in place, Sector suggests the use of its creditworthiness matrix, which uses credit ratings supplied by Fitch and Moody's. The Fitch ratings are particularly useful as they provide four variables for measuring a counterparty's suitability: long term credit rating, short term credit rating, individual rating and a support rating. This combination of measures ensures that there is a tangible means of comparing counterparties in one country against those in another. Recently, as a further service enhancement, Sector has launched its Credit Default Swap Spread overlay to further inform investment behaviour.

With regard to the specific use of building societies, Sevenoaks DC will be aware that only Nationwide, Coventry and Leeds building societies meet the Sector creditworthiness matrix parameters. The remainder of the building society sector have either suffered downgrades over recent months or have not been rated.

It is accepted that there are other ways of measuring building society performance other than through the use of credit ratings. Some authorities, indeed, reflect on asset size and a league table ranking as being sufficient information for an investment decision to be made. Others use data produced annually by Ernst and Young to undertake their own analysis and derive their own conclusions.

However, attention is also drawn to the DCLG guidance issued in March 2004, which determined that investing in non-credit rated building societies as a non-specified investment, clearly flagging up that this form of investment carries a higher risk than investing in highly credit rated banks or building societies. Specified investments are identified as bodies or investment schemes with a 'high credit rating' (not defined).

In addition to the above assessment, you may find the following set of bullet points helpful in respect of any consideration as to the future use of unrated building societies:

Non credit rated building societies – advantages

• They can offer attractive rates to Local Authorities;

• They are often co-operative in offering such rates on smaller sums which would be of no interest to bigger counterparties;

• Their assets are mainly bricks and mortar – very safe;

• The secured assets are usually an appreciating asset. (Please see disadvantages.)

• They have relatively small exposure to major borrowing from the City (risk of credit line being called in);

• They have a relatively small exposure to more risky business (personal/commercial lending) and so to bad debt risk;

• In the event of default, Building Society depositors will be paid out before members and retail savers unlike the banking sector where they rank *pari passu* with other creditors;

• When building societies have slipped into financial difficulties, the Building Society Commission (now FSA) has overseen an orderly transfer of business to a larger society, although this is by no means mandatory.

Non credit rated building societies – disadvantages

• No certainty of a building society in financial difficulties being bought out by a large building society as there are few really large societies left;

• The current housing market conditions mean that secured assets are not worth as much as they previously were which could have an effect on building societies' balance sheets;

• Lack of reliable news in the market place for treasury management teams to tap into – a society in difficulty could go under the radar;

• There is a huge maturity mismatch between long term mortgage lending and short term retail savings. Historically these savings have proved a very stable source of funding, but what if….?;

• Decline in the net interest margin ('profit' between borrowing and lending) has narrowed in recent years (improvement in returns to members) and has caused a few societies to move more into sub prime lending to access wider margins i.e. increase in risk exposure.

In summary, there is a need to find the right balance between risk and reward. If the Authority feels comfortable in its use of building societies, you should consider setting a limit for the maximum exposure of the investment portfolio to this sector. You should think carefully as to how well informed you are if you decide to use unrated building societies. Chasing the highest rate of return without considering risk issues is not in line with the DCLG guidance or the CIPFA Code of Practice on Treasury Management.

Extract from current Investment Strategy

Investment Policy

28 The Council has regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

(a) the security of capital and

(b) the liquidity of its investments.

29 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

30 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

31 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. An investment is a specified investment if:

a. It is denominated in sterling and any payments or repayments are payable only in sterling; and

b. It is not a long-term investment (i.e. it is for less than 12 months); and

c. It does not involve the acquisition of share capital or loan capital in any body corporate; and

d. <u>Either</u>

i. It is made with the UK Government or another local authority; or

ii. It is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency

A non-specified investment is one which does not meet all the above criteria.

32 Specified Investments:

	Minimum 'High' Credit Criteria	**Maximum maturity period**
Debt Management Agency Deposit Facility	--	6 months
Term deposits – other LA's	--	1 year
Term deposits – banks	Long-term AA- or better	1 year
Term deposits – building societies	Assets above £500m	1 year

33 Since the credit crunch, there have been a number of developments which require separate consideration and approval for use:

- **Nationalised Banks** in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for the Credit Rating Agencies to assign them an individual rating for their stand-alone financial strength. Accordingly, they have been assigned an F rating which means that, at a historical point in time, the bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest rating possible. At its meeting in December 2008, Cabinet rejected this as the sole investment option.

- **Blanket guarantees on all deposits.** Some countries have supported their banking systems by giving a blanket guarantee on ALL deposits e.g. Ireland. A view could be taken that the sovereign rating of a country takes precedence over the individual credit ratings for the banks covered by that guarantee.

- **UK banking system support package.** The UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. Again, a view could be taken there is an implicit guarantee from the Government.

- **Other countries.** Similar implicit guarantees exist for the banking systems of other countries. For example, the US and countries within the EU and Switzerland are currently providing major support packages to their banking systems.

34 At its meeting in December 2008, Cabinet decided only to lend to UK and EU institutions. Lending criteria remain to be determined on an institution's own credit ratings rather than any Government guarantees (implicit or otherwise).

	Minimum Credit Criteria	**Maximum Maturity Period**
The following categories of investment may have variable interest rates and/or variable maturity dates		
Certificates of deposit issued by banks and building societies covered by UK Government guarantee	Banks: Long-term AA- or better Building Societies Assets above £500m	1 year
Certificates of deposit issued by banks and building societies NOT covered by UK Government guarantee	Banks: Long-term AA- or better Building Societies: Assets above £500m	1 year
UK Government gilts	Long term AAA	1 year
Bonds issued by multilateral development banks	Long term AAA	1 year
Bonds issued by a financial institution which is guaranteed by the UK Government	Long term AAA	1 year
Sovereign bond issues (ie other than UK Government)	Long term AAA	1 year
Treasury bills	-	3 months
Money Market Funds	Long term AAA	1 year

35 Non-Specified Investments:

A maximum of 75% will be held in aggregate in non-specified investments

	Minimum Credit Criteria	**Max % of total investments**	**Max. maturity period**
Term deposits – other LA's (with maturities in excess of 1 year)	--	75	5 years
Term deposits – Banks (with maturities in excess of 1 year)	Long term AA- or better	75	5 years
Term deposits – building societies (with maturities in excess of 1 year)	Assets above £500m	75	5 years
Fixed term deposits with variable rate and variable maturities (in excess of 1 year):			
Callable deposits, range trades & snowballs	Long-term AA- or better	25	5 years
Certificates of deposits issued by banks and building societies	Banks: Long-term AA- or better Building Societies: Assets above £500m	25	5 years
UK Government Gilts	Long-term AAA	25	5 years
Bonds issued by multilateral development banks	AAA	25	5 years
Bonds issued by a financial institution which is guaranteed by the UK Government	AAA	25	5 years

	Minimum Credit Criteria	**Max % of total investments**	**Max. maturity period**
Sovereign bond issues (i.e. Other than the UK Government)	AAA	25	5 years
Corporate Bonds: **the use of these investments would constitute capital expenditure**	Long-term AAA	25	5 years

36 Counterparty limits are set in accordance with the Council's Treasury Management Practices (TMP's) which have been developed in order to comply with CIPFA's Code of Practice or Treasury Management.

37 In the case of the banks, the Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. All credit ratings will be monitored on a monthly basis. The Council is also alerted to changes in Fitch ratings through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, no new investment would be placed with that counterparty.
- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

38 In the case of building societies, because few are rated, we use asset size as a measure of creditworthiness. Whilst not as sophisticated a measure as the rating system, it provides a good indication of the societies' financial strength. At its meeting in December 2008, Cabinet decided to keep the smaller building societies on our lending list, but only place funds with them as a last resort.

39 As well as absolute cash limits for each institution or institution group, no more than 15% of the total fund (based on the year end forecasted balance) should be held by any one of our counterparties at anytime. A similar limit exists for investments in any one foreign country.

40 Because the Council has instant access to its funds in a liquidity or deposit account, the element of risk is reduced. The above limits do not apply to such accounts.

41 The latest version of the Council's lending list appears at Annex B. It should be noted, however, that Cabinet decided to limit new

investments to a maximum of £2m per counterparty in the light of the current economic climate.

Investment Strategy

42 The Council's investment portfolio consists largely of a core balance available for investment over a 2-3 year period or longer, if required, plus cash-flow derived balances. The value of the portfolio at 15th January 2009 is £28.1 million (including £1 million with Landsbanki).

43 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (ie rates for investments up to 12 months)

44 **Interest rate outlook:** Bank Rate started on a downward trend from 5.75% in December 2007 with further cuts of 0.25% in February and April 2008, then 0.5% in October, 1.5% in November and 1% in December. Further cuts of 1.5% are expected during Q1 2009. It is then expected to stabilise at 0.50% until starting to rise gradually with the first increase in Q2 2010 and then to be back up to 4.00% during Q1 2012. The Council will therefore avoid locking into longer term deals while investment rates are down at historically low levels.

45 For 2009/10, Sector recommend budgeting for an investment return of 1.5% on investments placed during 2009/10. This is on the assumption that the credit crunch will inflate investment rates by about 100bp over Bank Rate through 2009/10. Taking into account a substantial sum of investments that have already been placed for longer periods into or through 2009/10 at higher rates, officers expect the overall return to be in the order of 3%.

46 For its cash-flow generated balances (i.e. those identified as being required to meet commitments in the near future), the Council will seek to utilise its business reserve and other liquidity accounts plus short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.