

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE
24 SEPTEMBER 2014

TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2014/15

REPORT OF GO SHARED SERVICE HEAD OF FINANCE

(Contact: Paul Stuart: - Tel (01993) 861171)

(The report is for information)

1. PURPOSE

To advise members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2014 – 31st August 2014.

2. RECOMMENDATIONS

That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2014 – 31 August 2014 are noted.

3. BACKGROUND

Investment Portfolio Background

- 3.1. The In house investment balance amounted to £14.610m at 1 April 2014 including the long term loan to Hanover Housing Association. However, the average balance of investments for the period to 3st August 2014 has risen to £16.30m excluding outstanding Icelandic deposits.
- 3.2. Bonds purchased in 2013/14 (at a cost of £4.942m) were valued at £5.081m at 31st March 2014 and are now valued at £5.073m on 31st August 2014.
- 3.3. The performance of all funds are continually monitored and compared against the 3 month LIBID rate which is 0.49% as at 31 August 2014.

Investment Activity

- 3.4. The guidance on Local Government Investment in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15. New investments were made in line with policy as quoted in the Investment Strategy for 2014/15:

- AAA-rated Money Market Funds;
- Term Deposits with UK Banks and Building Societies systemically important to the UK banking system;
- Pooled funds (collective investment schemes) meeting the criteria in SI 2004 No 534 and subsequent amendments.

Counterparty credit quality was assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

3.5. The cash investments outstanding at 31 August 2014 are detailed in Appendix A.

Investment Performance

3.6. Performance Achieved for the period (excluding outstanding Icelandic investments) is shown below

Performance of Fund April 2014 to 31 August 2014 (annualised returns)	Pooled Funds	In-House	Bonds
Net Return	2.41%	1.68%	3.78%

In – house investment achieved a net return of 1.68% which is 1.19% above the 3 month LIBID rate. The outperformance is due to the £5m loan to Hanover Housing Association at a rate of 3.35% and a number of fixed term deposits with Lloyds at the beginning of year with an average rate of 0.94%. However it should be noted in-house investments are largely constrained by cash flow commitments such as precept payments, benefit pay-out as well as the capital programme requirements.

Pooled Funds

Fund Manager	Original Investment	Fund Values for June-August 2014			Unrealised Gain/(Loss)	% Return Annualised
		June	July	August		
	£	£	£	£	%	
Insight LPF	2,000,000	2,004,150	2,005,472	2,006,916	6,916	0.83
Payden & Rygel	2,000,000	2,002,259	2,004,082	2,008,961	8,961	1.08
UBS	1,000,000	1,023,698	1,023,698	1,036,947	36,947	8.87
SWIP	4,000,000	3,955,882	3,963,235	3,952,206	-47,794	-2.87
Schroders	1,000,000	1,019,922	1,023,845	1,043,314	43,314	10.40
Threadneedle	1,000,000	1,012,853	1,012,561	1,033,009	33,009	7.92
M&G	1,000,000	1,020,706	1,011,935	1,039,277	39,277	9.43
	12,000,000	12,039,470	12,044,828	12,120,630	120,630	2.41

Insight ILF GBP Liquidity Plus Fund – The Fund aims to preserve capital and provide an investment return in excess of sterling money markets. The fund aims to for a net return equivalent to 0.125% above the 3 month sterling LIBID (currently 0.49%).

Payden Sterling Reserve Fund – The fund invests in a diversified range of sterling-denominated, highly-rated and very liquid government agency securities and corporate fixed – and floating-rate and covered bonds. The Fund has delivered a positive return so far.

UBS Multi-Asset Income Fund – The fund seeks to provide an income, through a diversified portfolio of investments. A very positive return has been generated to date coming from both income and return on capital. The Fund’s allocation to high yield debt, both US and European, provided the largest contribution to performance for this year.

SWIP Absolute Return Bond Fund – The Fund aims to achieve a positive capital return, regardless of market conditions, over rolling 12 month periods. Emphasis on credit and currency positions is the strategy for fixed income.

Schroder Income Maximiser Fund – The Fund’s investment objective is to provide income with potential for capital growth primarily through investment in equity and equity related securities of UK companies. The fund aims to deliver a target yield of 7% per year.

Threadneedle Global Equity Income Fund – The aim of the Fund is to provide income with the potential to grow the amount invested as well. The fund invests two thirds of its assets in shares of companies worldwide.

M&G Global Dividend Fund – The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. The fund aims to grow distributions over the long term whilst also maximising total return. The fund will usually hold around 50 stocks, with a long-term investment view and a typical holding period of three to five years.

Interest rate forecast

- 3.7. The UK economic recovery has continued apace and now appears more sustainable. Whilst still largely driven by household consumption, the large and continued rise in employment makes this position of less concern in the short term.
- 3.8. The MPC made no change to the Bank Rate of 0.5%. Arlingclose’s projected interest rates are tabled below. Based on stronger growth, which is likely to use up spare capacity more quickly, they expect the first rise in official interest rates in Q3 2015. They then expect a slow rise in Bank Rate going forwards.

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Official Bank Rate												
Upside risk	0.25	0.25	0.25	0.50	0.25	0.50	0.50	0.50	0.50	0.75	0.75	0.75
Central case	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Downside risk					0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00

4. ALTERNATIVES/OPTIONS

Not applicable.

5. FINANCIAL IMPLICATIONS

The original investment interest budget for 2014/15 was set at £550,000 which was based on an average balance of £32.9 million from all the different type of investments (e.g. fixed term deposits, pooled funds, bonds) achieving an overall average return of 1.67%. The breakdown of the budget is as follows:

Pooled Fund Managers	£120,000
In-House Investments	£72,500
Hanover Housing Assoc	£167,500
Bonds	<u>£190,000</u>
Total	£550,000

At present there are fluctuations within Pooled Funds and Bond valuations, however officers are comfortable that the investment model is more robust than in previous years and the overall budget will be achieved this financial year.

6. REASONS

To be recognised as a leading council that provides efficient, value for money services

Paul Stuart
GO Shared Service Head of Finance

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Date: 9 September 2014

Background Papers

Valuation 31st August 2014 – Pooled Funds & Bonds
In – House investment as at 31st August 2014

SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 31 August 2014

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Fitch Credit Rating			
					Long Term	Short Term	Viability	Support
IN HOUSE MANAGEMENT								
Hannover Housing Association	24.07.13	5,000,000	24.07.18	3.35%	A	FI		
Lloyds Bank	03.03.14	2,000,000	03.09.14	0.70%	A	FI	a-	I
Lloyds Bank	01.04.14	1,900,000	31.03.15	0.95%	A	FI	a-	I
Nationwide BS	11.04.14	2,100,000	25.03.15	0.80%	A	FI	a	I
Barclays Bank	16.06.14	3,500,000	16.10.14	0.51%	A	FI	a	I
Barclays Bank	01.07.14	1,500,000	02.02.15	0.65%	A	FI	a	I
Lloyds Bank	04.08.14	1,100,000	04.03.15	0.73%	A	FI	a-	I
Nationwide BS	06.08.14	1,000,000	06.03.15	0.69%	A	FI	a	I
Goldman Sachs MMF	31.08.14	800,000		0.34%	AAAmf			
Invesco AIM MMF	31.08.14	930,000		0.42%	AAAmf			
TOTAL IN-HOUSE INVESTMENTS		19,830,000						
ICELANDIC BANK DEPOSITS								
GLITNIR	27.06.07	236,166	29.06.09	6.520%				
Kaupthing Singer Friedlander	02.07.07	175,397	02.07.09	6.590%				
GLITNIR (Tradition)	31.08.07	538,041	28.08.09	6.350%				
TOTAL ICELANDIC DEPOSITS		949,604						

POOLED FUND & BONDS PORTFOLIO VALUATION AT 31 AUGUST 2014

POOLED FUNDS & BONDS	MARKET VALUE (£)
Insight ILF GBP Liquidity Plus Fund	2,006,916
Payden Sterling Reserve Fund	2,008,961
UBS Multi-Asset Income Fund	1,036,947
SWIP Absolute Return Bond Fund	3,952,206
Schroder Income Maximiser Fund	1,043,314
Threadneedle Global Dividend Fund	1,033,009
M&G Global Dividend Fund	1,039,277
A2D Bond	2,636,325
Places For People Bond	2,436,551
TOTAL VALUE OF FUNDS & BONDS	17,193.506