

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW & SCRUTINY COMMITTEE
WEDNESDAY 8 APRIL 2015

TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2014/15
REPORT OF THE GO SHARED SERVICES 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 – 28 February 2015.

2. RECOMMENDATIONS

That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2014 – 28 February 2015 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 28 February 2015 has been £18.664m 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 £5.204m on 28 February 2015.
- 3.3. The performance of all funds are continually monitored and compared against the 3 month LIBID rate which is 0.43% as at 28 February 2015.

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.
- 3.5. 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; and
 - Pooled funds (collective investment schemes) meeting the criteria in SI 2004 No 534 and subsequent amendments.
- 3.6. 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.

3.7. The cash investments outstanding at 28 February 2015 are detailed in Appendix A.

Investment Performance

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

Performance of Fund I April 2014 to 28 February 2015 (annualised returns)	Pooled Funds	In-House	Bonds
Net Return	1.95%	1.32%	2.56%

3.9. In – house investment achieved a net return of 1.32% which is 0.89% 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 August - February 2015			Unrealised Gain/(Loss)	% Return Annualised
		June	December	February		
	£	£	£	£	£	%
Insight LPF	2,000,000	2,006,916	2,012,130	2,014,638	14,638	0.80%
Payden & Rygel	2,000,000	2,008,961	2,018,844	2,022,478	22,478	1.23%
UBS	1,000,000	1,036,947	1,044,970	1,063,445	63,445	6.92%
SWIP	4,000,000	3,952,206	3,860,294	3,849,265	(150,735)	-4.11%
Schroders	1,000,000	1,043,314	1,060,972	1,118,171	118,171	12.89%
Threadneedle	1,000,000	1,033,009	1,029,990	1,090,847	90,847	9.91%
M&G	1,000,000	1,039,277	1,030,457	1,056,035	56,035	6.11%
	12,000,000	12,120,630	12,057,657	12,214,878	214,879	1.95%

3.10. **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 0.43%).

3.11. **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.

3.12. **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.

- 3.13. **Aberdeen (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. Arlingclose met with SWIP in January 2015 to discuss their performance and strategy, and there was a follow up meeting on 23 February with the Strategic Director and a Member from this committee.
- 3.14. The outcome of the discussion between the Council; the Councils advisors and the fund manager will be discussed in detail at the Committee but the Council essentially three options:-
- *Replace Aberdeen with an alternate bond pooled fund;*
 - *Reduce the holding in Aberdeen and bring in an alternate bond fund to effectively have a two fund bond option with Aberdeen being part of the bond holding;*
 - *Replace Aberdeen with two alternate bond funds.*
- 3.15. All the above options have associated strengths and weaknesses and any decision to replace the Aberdeen fund either in full or part will actually crystallise the current paper loss. If it is determined that the current loss is merely a timing issue in the turn in market rates then crystallising the loss would be inappropriate. However the Council has previously been in a position when it felt it held a fund too long in the anticipation of a turn around that didn't seem to occur and this also needs to be considered.
- 3.16. It is also worthwhile considering the position of the Aberdeen fund alongside our direct bond holdings which have seen large capital appreciations and therefore the Aberdeen position does seem to hedge against those holdings.
- 3.17. **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.
- 3.18. **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.
- 3.19. **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.
- 3.20. In summary the portfolio is performing in excess of budget expectations and forecasts, with the Pooled Funds model exceeding our original (albeit cautious) estimate.
- 3.21. The Aberdeen portion of the pooled fund needs to be considered alongside other investment performance such as the RSL corporate bonds which have benefited from a long bond market position with A2D registering significant capital appreciation to offset the SWIP book position.

Interest Rate Forecast

- 3.22. The UK economic recovery slowed towards the end of 2014 as economic and political uncertainty weighed on business investment. The Q4 growth rate of 0.5% was a little below the long run average, but more recent data suggests the recovery remains on track.
- 3.23. Arlingclose as shown in the table below have pushed back their expectation for the first rise in official interest rates in Q2 2016. The risks to this forecast remain weighted to the downside; in particular, signs of more widespread deflation could prompt a further downward revision to our forecast.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Official Bank Rate												
Upside risk				0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	2.00
Central case	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
Downside risk			0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

4. ALTERNATIVES/OPTIONS

None applicable.

5. FINANCIAL IMPLICATIONS

- 5.1. 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 and latest forecast to the year-end are as follows:

Budget	Current Budget 2014/15 £	Forecast Outturn 2014/15 £
Pooled Fund Managers	120,000	200,000
In-House Investments	72,500	90,000
Hanover Housing Assoc	167,500	167,500
Bonds	190,000	234,800
Total	550,000	692,300

- 5.2. The continuing fluctuations within the Pooled Fund Investments mean there can be significant movement in the overall valuation of investments as shown in the table within paragraph 3.9. The forecast above has assumed the latest Pooled Fund valuations will significantly materialise. However, Committee will be given a verbal update with the final year end position of the Pooled Funds.

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: 20 March 2015

Background Papers

Valuation 28 February 2015 – Pooled Funds & Bonds
In – House investment as at 28 February 2015

SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 28 February 2015

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Long Term	Fitch Credit Rating		
						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	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
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
Lloyds Bank	03.09.14	2,000,000	03.03.15	0.70%	A	FI	a	I
Goldman Sachs MMF	28.02.15	2,260,000		0.42%	AAAmmf			
Invesco AIM MMF	28.02.15	690,000		0.39%	AAAmmf			
TOTAL IN-HOUSE INVESTMENTS		16,050,000						
ICELANDIC BANK DEPOSITS								
GLITNIR	27.06.07	236,166	29.06.09	6.520%				
Kaupthing Singer Friedlander	02.07.07	159,144	02.07.09	6.590%				
GLITNIR (Tradition)	31.08.07	538,041	28.08.09	6.350%				
TOTAL ICELANDIC DEPOSITS		933,351						

POOLED FUND & BONDS PORTFOLIO VALUATION AT 28 FEBRUARY 2015

POOLED FUNDS & BONDS	MARKET VALUE (£)
Insight ILF GBP Liquidity Plus Fund	2,014,638
Payden Sterling Reserve Fund	2,022,478
UBS Multi-Asset Income Fund	1,063,445
SWIP Absolute Return Bond Fund	3,849,265
Schroder Income Maximiser Fund	1,118,171
Threadneedle Global Dividend Fund	1,090,847
M&G Global Dividend Fund	1,056,035
A2D Bond	2,761,525
Places For People Bond	2,442,025
TOTAL VALUE OF FUNDS & BONDS	17,418,429