

**WEST OXFORDSHIRE DISTRICT COUNCIL**  
**FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE**  
**23 SEPTEMBER 2015**

**TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2015/16**

**REPORT OF GO SHARED SERVICE HEAD OF FINANCE**

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

**I. PURPOSE**

To advise members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2015 – 31<sup>st</sup> August 2015.

**2. RECOMMENDATION**

That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2015 – 31 August 2015 are noted.

**SUPPORTING INFORMATION**

**Investment Portfolio Background**

- 2.1. The In house investment balance amounted to £11.035m at 1 April 2015 including the long term loan to Hanover Housing Association. However, the average balance of investments for the period to 31<sup>st</sup> August 2015 has risen to £19.073m excluding outstanding Icelandic deposits.
- 2.2. Bonds purchased in 2013/14 (at a cost of £4.942m) were valued at £5.169m at 31<sup>st</sup> March 2015 and are now valued at £4.995m on 31<sup>st</sup> August 2015 based on current mid-prices.
- 2.3. The performance of all funds are continually monitored and compared against the 3 month LIBID rate which is 0.43% as at 31 August 2015.

**Investment Activity**

- 2.4. 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 2015/16. New investments were made in line with policy as quoted in the Investment Strategy for 2015/16:

- 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.

2.5. The cash investments outstanding at 31 August 2015 are detailed in Appendix A.

### Investment Performance

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

<b>Performance of Fund I April 2015 to 31 August 2015 (annualised returns)</b>	<b>In-House</b>	<b>Bonds</b>
Net Return	1.15%	3.76%

In-house investment achieved a net return of 1.15% which is 0.72% 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 Certificate of Deposits (CD's) with Standard Chartered at the beginning of year with an average rate of 0.71%. 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.

2.7. During August 2015 it was decided by officers after consulting with Arlingclose Ltd to switch all of the Pooled Funds from accumulation funds to income share class. This change allows regular income dividend payments to the council, (monthly, quarterly or half yearly) as revenue. An estimate for the year's return for these dividends is approximately £180,000. The table below shows the current value of the Pooled Funds but does not reflect the expected dividend.

### **Pooled Funds Portfolio**

	<b>Initial Investment</b>	<b>1 April Fund Value</b>	<b>31 August Fund Value</b>	<b>Unrealised Gain / (Loss) for 2015/16</b>	<b>Unrealised Gain / (Loss) to Initial Principal</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Insight LPF – Cash +	2,000,000	2,016,036	2,019,074	3,038	19,074
Payden & Rygel – Cash +	2,000,000	2,025,667	2,027,064	1,397	27,064
UBS – Bond / Equity	2,000,000	1,065,124	1,991,232	(73,892)	(8,768)
M&G Strategic – Bond	1,000,000	0	986,297	(13,703)	(13,703)
Aberdeen – Bond	2,000,000	3,830,882	1,837,299	6,417	(162,701)
Schroders – Equity	1,000,000	1,105,041	1,019,730	(85,311)	19,730
Threadneedle – Equity	1,000,000	1,121,811	1,025,108	(96,703)	25,108
M&G Global - Equity	1,000,000	1,075,050	945,584	(129,466)	(54,416)
	<b>12,000,000</b>	<b>12,239,611</b>	<b>11,851,388</b>	<b>(388,223)</b>	<b>(148,612)</b>

August was a torrid month for markets in general, in particular commodities and equities, on the back of China's economic slowdown and the ensuing turbulence which followed in stock markets worldwide. The UK was not immune, nor was the global stocks, as evidenced from the fall in both the FTSE-100 and the MSCI World indices both of which fell more than 5% over the month. This impact on the market is reflected in the Fund Values shown above and Appendix B to the report provides detailed movement in price and value of Funds since the initial investments were made. It should be noted the fall in Fund Value will only occur at the point of selling the investment.

2.8. **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%). Current performance to date suggests the target maybe short but income is likely to see a return of 0.75%.

**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 and an income return of 0.75% is estimated for the year.

**UBS Multi-Asset Income Fund\*\*** – The fund seeks to provide an income, through a diversified portfolio of investments. The fund was increased by a further £1m in April 2015 to £2m but since then has seen its value fall due to the recent poor market returns as highlighted in 2.6.1. The fund is expected to return income of around 3.5% for the year though.

**Aberdeen 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. To date the fund value has seen a small increase in value since April 2015, however the current value is still lower than the original sum invested due to the poor performance made last year. The decision was made in April 2015 to withdraw £2m from this fund and re-invest £1m into UBS Multi-Asset Income Fund and to open a new fund with M&G Strategic Corporate Bond Fund using the remaining £1m. Estimated income dividend returns for the year are expected to be around 1.5%.

**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. Since April 2015 this fund has fallen in value again due to the torrid markets. However an income dividend is estimated to achieve around 6%.

**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. The value of this fund has fallen significantly for the first part of this financial year. Estimated income dividend return for the year is 3.5%.

**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. It has been a challenging 12 months for the M&G Global Dividend Fund with the energy-related holdings, focused on infrastructure and chemical companies (they do not own any oil-producing companies), accounting for the vast majority of the fund's underperformance. Income return on this fund is expected to be around 3.5% for the year.

**M&G Strategic Corporate Bond Fund\*** - The aim of the Fund is to provide income and capital growth, through a top-down approach of the fund manager's economic outlook determining the fund duration, the sector allocation and stock concentration. It invests primarily in investment grade corporate bonds. This fund was opened in April 2015; however the initial investment of £1m has seen its value reduce. An annual return of 2.5% is expected from income dividends.

### **Interest rate forecast**

- 2.7. The UK economic growth picked up as expected in Q2 of 2015 following a softer activity in Q1 with estimated growth of 0.7%. Household spending remains key and appears to be robust, supported by employment and real wage growth, low interest rates and a positive outlook for house prices.
- 2.8. The recent China-led stock market turbulence and rout in commodities have led to sharp falls in global equity indices, as seen in the fall in value of a number of Funds the Council have. These funds are likely to bounce back.
- 2.9. The MPC made no change to the Bank Rate of 0.5%. Arlingclose's projected interest rates are tabled below. The expectation for the first rate rise is in Q2 of 2016. They then expect a slow rise in Bank Rate going forwards.

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Official Bank Rate												
Upside risk			0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
Central case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00

### **3. FINANCIAL IMPLICATIONS**

The original investment interest budget for 2015/16 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 a comparative forecast is as follows:

	2015/16 Budget (£)	2015/16 Forecast (£)
Pooled Fund Managers	120,000	180,000
In-House Investments	72,500	80,000
Hanover Housing Assoc	167,500	167,500
Bonds	190,000	188,000
Total	550,000	615,500

At present there are fluctuations within Pooled Funds and Bond valuations, however officers are comfortable the overall budget will be achieved this financial year.

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Date: 9 September 2015  
Background Papers  
Valuation 31<sup>st</sup> August 2015 – Pooled Funds & Bonds  
In – House investment as at 31<sup>st</sup> August 2015

## SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 31 August 2015

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Fitch Credit Rating			
					Long Term	Short Term	Viability	Support
<b>IN HOUSE MANAGEMENT</b>								
Hanover Housing Association	24.07.13	5,000,000	24.07.18	3.35%	A	FI		
Standard Chartered Bank	01.04.15	2,000,000	01.10.15	0.71%	AA-	FI+	aa-	5
Standard Chartered Bank	15.04.15	2,000,000	15.10.15	0.70%	AA-	FI+	aa-	5
Nationwide BS	02.07.15	1,000,000	02.10.15	0.50%	A	FI	a	5
Nationwide BS	09.07.15	1,000,000	09.10.15	0.50%	A	FI	a	5
Lloyds Bank	10.07.15	1,000,000	12.10.15	0.57%	A+	FI	a	5
Lloyds Bank	13.07.15	2,000,000	13.10.15	0.57%	A+	FI	a	5
Barclays Bank	03.08.15	1,000,000	03.11.15	0.53%	A	FI	a	5
Goldman Sachs MMF	31.08.15	1,570,000		0.43%	AAAmmf			
Invesco AIM MMF	31.08.15	2,860,000		0.42%	AAAmmf			
<b>TOTAL IN-HOUSE INVESTMENTS</b>		<b>19,430,000</b>						
<b>ICELANDIC BANK DEPOSITS</b>								
Glitnir Escrow	27.06.07	236,166		3.71%				
Kaupthing Singer Friedlander	02.07.07	159,144		-				
Glitnir Escrow (Tradition)	31.08.07	538,041		3.71%				
<b>TOTAL ICELANDIC DEPOSITS</b>		<b>933,351</b>						

**Appendix B**

**POOLED FUND & BONDS PORTFOLIO VALUATION AT 31 AUGUST 2015**

	Insight Liquidity Plus Fund - Share Class 3		Payden & Rygel Sterling Reserve Fund - Accumulation		UBS Multi Asset Income Fund - L Class Accumulation Gross	
Transaction Ref	33544		AA1771001		0000486436	
Date of purchase	31/03/2014		28/03/2014		28/03/2014	
Number of units/shares	1,520,045.601		189,845.181		1,866,019.780	
Purchase Price £	1.31575		10.5349		0.536	
Initial investment 2013/14 £	2,000,000		2,000,000		1,000,000	
Initial investment 2014/15						
Additional investment 2014/15	Unit price	Value	Unit price	Value	Unit price	1,000,000 Value
Apr-14	1.3166	2,001,277	10.5331	1,999,658	0.54210	1,011,569
May-14	1.3176	2,002,812	10.5547	2,003,759	0.54760	1,021,832
Jun-14	1.3185	2,004,150	10.5468	2,002,259	0.54860	1,023,698
Jul-14	1.3194	2,005,472	10.5564	2,004,082	0.54860	1,023,698
Aug-14	1.3203	2,006,916	10.5821	2,008,961	0.55570	1,036,947
Sep-14	1.3215	2,008,740	10.5886	2,010,195	0.55110	1,028,364
Oct-14	1.3223	2,009,895	10.6079	2,013,859	0.55420	1,034,148
Nov-14	1.3229	2,010,929	10.6272	2,017,523	0.56170	1,048,143
Dec-14	1.3237	2,012,130	10.6342	2,018,844	0.56000	1,044,971
Jan-15	1.3245	2,013,331	10.6603	2,023,807	0.56390	1,052,249
Feb-15	1.3254	2,014,638	10.6533	2,022,478	0.56990	1,063,445
Mar-15	1.3263	2,016,036	10.6701	2,025,667	0.57080	1,065,124
Variance to initial investment	0.80%	16,036	1.28%	25,667	6.51%	65,124
<b>Transactions 2015/16</b>						
Number of units/shares					1,747,030.049	
Purchase/Sale Price £					0.5724 1,000,000	
Apr-15	1.3269	2,016,979	10.6679	2,025,249	0.57210	1,067,550
May-15	1.3275	2,017,921	10.6759	2,026,768	0.57240	2,068,110
Jun-15	1.3280	2,018,545	10.6693	2,025,515	0.56170	2,029,450
Jul-15	1.3279	2,018,453	10.6679	2,025,249	0.56550	2,043,180
Aug-15	0.9841	2,019,074	10.0996	2,027,064	0.5069	1,991,232
Variance to 31/3/15	3,037		1,397		(73,892)	
Variance to initial investment	19,074		27,064		(8,768)	
	<i>Div payable monthly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	

	Aberdeen (SWIP) Absolute Return Bond Fund - D Class Accumulation		M&G Strategic Corporate Bond Fund I Class Accumulation		Schroders Income Maximiser Fund - Z Class Accumulation	
Transaction Ref	P3B/003072Z/1				0016426876	
Date of purchase	25/03/2014				08/04/2014	
Number of units/shares	3,676,470.588				1,509,206.160	
Purchase Price £	1.088				0.6626	
Initial investment 2013/14 £	4,000,000					
Initial investment 2014/15					1,000,000	
Additional investment 2014/15	Unit price	Value			Unit price	Value
Apr-14	1.0870	3,996,324			0.6792	1,025,053
May-14	1.0830	3,981,618			0.6872	1,037,126
Jun-14	1.0760	3,955,882			0.6758	1,019,922
Jul-14	1.0780	3,963,235			0.6784	1,023,845
Aug-14	1.0750	3,952,206			0.6913	1,043,314
Sep-14	1.0770	3,959,559			0.6783	1,023,695
Oct-14	1.0740	3,948,529			0.6786	1,024,147
Nov-14	1.0660	3,919,118			0.7008	1,057,652
Dec-14	1.0500	3,860,294			0.7030	1,060,972
Jan-15	1.0460	3,845,588			0.7259	1,095,533
Feb-15	1.0470	3,849,265			0.7409	1,118,171
Mar-15	1.0420	3,830,882			0.7322	1,105,041
Variance to initial investment	-4.23%	(169,118)			10.50%	105,041
<b>Transactions 2015/16</b>						
Number of units/shares	1,917,545.542	-	86,261.182			
Purchase/Sale Price £	1.043	(2,000,000)	11.59270	1,000,000		
Apr-15	1.0520	1,850,389			0.7375	1,113,040
May-15	1.0552	1,856,018	11.6181	1,002,191	0.7506	1,132,810
Jun-15	1.0570	1,859,184	11.4077	984,042	0.7175	1,082,855
Jul-15	1.0510	1,848,630	11.4784	990,140	0.7184	1,084,214
Aug-15	0.9751	1,837,299	10.5952	986,297	0.5065	1,019,730
Variance to 31/3/2015						(85,311)
Variance to initial investment		(76,411)		(13,703)		19,730
	<i>Div payable semi-annually</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	



	Threadneedle Global Equity Income Fund - Z Class Accumulation Net		M&G Global Dividend Fund - Class I Accumulation	
Transaction Ref	0006673718		0226768331	
Date of purchase	01/04/2014		26/03/2014	
Number of units/shares	973,709.835		489,993.898	
Purchase Price £	1.0270		2.041	
Initial investment 2013/14 £			1,000,000	
Initial investment 2014/15	1,000,000			
Additional investment 2014/15				
	Unit price	Value	Unit price	Value
Apr-14	1.0212	994,352	2.0449	1,001,989
May-14	1.0467	1,019,182	2.0931	1,025,606
Jun-14	1.0402	1,012,853	2.0831	1,020,706
Jul-14	1.0399	1,012,561	2.0652	1,011,935
Aug-14	1.0609	1,033,009	2.1210	1,039,277
Sep-14	1.0341	1,006,913	2.1025	1,030,212
Oct-14	1.0428	1,015,385	2.1100	1,033,887
Nov-14	1.0762	1,047,907	2.1624	1,059,563
Dec-14	1.0578	1,029,990	2.1030	1,030,457
Jan-15	1.1047	1,075,657	2.0751	1,016,786
Feb-15	1.1203	1,090,847	2.1552	1,056,035
Mar-15	1.1521	1,121,811	2.1945	1,075,292
Variance to initial investment	12.18%	121,811	7.53%	75,291
<b>Transactions 2015/16</b>				
Number of units/shares				
Purchase/Sale Price £				
Apr-15	1.1430	1,112,950	2.2121	1,083,916
May-15	1.1608	1,130,282	2.2297	1,092,539
Jun-15	1.0877	1,059,104	2.1000	1,028,987
Jul-15	1.0938	1,065,044	2.0796	1,018,991
Aug-15	1.1291	1,025,108	1.5348	945,584
Variance to 31/3/2015		(96,703)		(129,708)
Variance to initial investment		25,108		(54,416)
	<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	

	A2D Funding Plc Bond 4.75% 18/10/2022		Places for People Homes Bond 5% 27/12/2016	
	2,500,000 mid price (p)	Bond Value	2,300,000 mid price (p)	Bond Value
Jun-14	105.184	2,629,600	106.737	2,454,951
Jul-14	105.366	2,634,150	106.270	2,444,210
Aug-14	105.453	2,636,325	105.937	2,436,551
Sep-14	106.478	2,661,950	105.601	2,428,823
Oct-14	106.728	2,668,200	105.867	2,434,941
Nov-14	107.887	2,697,175	106.276	2,444,348
Dec-14	108.166	2,704,150	105.981	2,437,563
Jan-15	111.464	2,786,600	106.355	2,446,165
Feb-15	110.461	2,761,525	106.175	2,442,025
Mar-15	109.924	2,748,100	105.239	2,420,497
	<b>2,500,000</b>		<b>2,300,000</b>	
Apr-15	108.828	2,720,700	105.316	2,422,268
May-15	108.195	2,704,875	105.536	2,427,328
Jun-15	105.389	2,634,725	104.705	2,408,215
Jul-15	106.044	2,651,100	104.625	2,406,375
Aug-15	104.340	2,608,500	103.780	2,386,940