

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE
WEDNESDAY 7 DECEMBER 2016

TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2016/17

REPORT OF GO SHARED SERVICE HEAD OF FINANCE

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

1. PURPOSE

To advise members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2016 – 31 October 2016.

2. RECOMMENDATIONS

That treasury management activity and performance for the period 1 April 2016 – 31 October 2016 are noted.

3. BACKGROUND

Investment Portfolio Background

- 3.1. The in- house investment balance amounted to £9.510m at 1 April 2016 inclusive of the long term loan to Hanover Housing Association. The average balance of investments for the period to 31 October 2016 rose to £22.591m in line with cash-flow forecasts for 2016/17 achieving a return of 1.24% for the period.
- 3.2. Bonds purchased in 2013/14 (at a cost of £4.942m) were valued at £5.054m at 31st March 2016 and are now valued at £5.065m on 31 October 2016 based on current mid-prices. These bonds were acquired on a principle of holding to maturity.
- 3.3. The performance of all funds is continually monitored and compared against the 3 month LIBID rate which was 0.37% as at 31 October 2016.
- 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.

Long term security of capital remains 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 2016/17. New investments were made in line with policy as quoted in the Investment Strategy for 2016/17:

- AAA-rated Money Market Funds;
- Term Deposits with UK Banks and Building Societies systemically important to the UK banking system;
- Certificate of Deposits (CD's) and Bonds with UK and Non UK banks and corporates.
- 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; financial statements, information on potential government support and reports in the quality financial press

- 3.5. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority has a well-balanced and diversified investment portfolio but needs to consider other investment vehicles to counteract risks from changes to bail-in legislation.

The cash investments outstanding at 31 October 2016 are detailed in Appendix A.

Investment Performance

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

Performance of Fund 1 April 2016 to 31 October 2016 (annualised returns)	In-House	Bonds
Net Return	1.24%	3.76%

- 3.7 The current In-house investments have achieved a net return of 1.24% which is 0.87% 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 deposits taken with Lloyds Bank at the start of the financial year with an average rate of 1.05% were achieved. However it should be noted in-house investments returns will fall during the second half of this financial year due to the Bank Base Rate falling from 0.50% to 0.25% at the beginning of August 2016 and also investments of £6m have been used to fund the purchase of the commercial property Des Roches Square at the back end of September. Income from Council Tax and Business Rates falls dramatically in February and March so investment balances will decrease over this period of time.

The table below shows the current valuations of the Pooled Funds portfolio at the end of October 2016 compared with the values at the close of the 2015/16 financial year. In the seven months of the year we have seen a gain of over £511.5k, with only one fund showing a negative capital value in this financial year to date.

	Initial Investment	1 April Fund Value	31 October Fund Value	Unrealised Gain / (Loss) for 2016/17	Unrealised Gain / (Loss) to Initial Principal
	£	£	£	£	£
Insight LPF – Cash +	2,000,000	2,017,186	2,018,561	1,375	18,561
Payden & Rygel – Cash +	2,000,000	2,034,974	2,032,082	(2,892)	32,082
UBS – Bond / Equity	2,000,000	1,949,200	1,981,019	31,819	(18,981)
M&G Strategic – Bond	1,000,000	990,198	1,028,467	38,269	28,467
Aberdeen – Bond	2,000,000	1,790,194	1,817,138	26,944	(182,862)
Schroders – Equity	1,000,000	972,619	1,045,097	72,478	45,097
Threadneedle – Equity	1,000,000	1,124,886	1,243,185	118,299	243,185
M&G Global - Equity	1,000,000	1,023,951	1,249,257	225,306	249,257
October 2016 Total	12,000,000	11,903,208	12,414,806	511,598	414,806
Previous Report –August 2016			12,379,747	476,539	379,747

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 0.37%). The performance for 2016/17 is estimated to make a return of 0.50%. this is on target with the budget. This fund will be recalled (or partially recalled) and re-invested in a new fund recommended by Arlingclose, Royal London Enhanced Cash Plus Fund.

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 0.80% is estimated for the year, slightly up on the budgeted return (0.70%). This fund may be partially recalled and re-invested in a new fund recommended by Arlingclose, Royal London Enhanced Cash Plus Fund.

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 and has recently seen its capital value increase from a negative position in the last report. The fund is expected to return income of around 3% to 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 is £180k less than what was invested, however the current value has increased from April 2016, and estimated income dividend returns for the year are expected to be around 1% and 1.5%. This fund is due to be recalled shortly as part of the funding for the recent asset purchase.

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 1 April 2016 this fund has risen in value due to its positioning mainly in the financials and oil industries.

An income dividend is estimated to achieve around 7% - 7.5% compared with a budgeted estimate of 5%.

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 risen strongly in the first five months of this financial year. Estimated income dividend return for the year is 3.5% - 4%.

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, and the fund has now started to improve recently and it is hoped this fund will see a big improvement in 2016. Income return on this fund is expected to be around 3.25% - 3.75% 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. An annual return of 2.5% is expected from income dividends this year.

4. Economic and Interest Rate Forecast

- 4.1 Financial markets, wrong – footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the European Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2016/17 and 2017/18.
- 4.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation (CPI) will breach its 2% target in 2017, the first time since late 2013, but the Bank of England is expected to overlook the inflation increases when setting future interest rates so as to avoid derailing the economy. The view of Arlingclose’s central interest rate forecast is for the UK Bank Rate to remain at 0.25%, with a small chance of a reduction below zero as can be seen from the table below.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Official Bank Rate												
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25
Central case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

5. BORROWING STRATEGY

- 5.1. The council is currently debt free but has recently been involved in the purchasing of a commercial asset and there are further capital assets to be purchased in the near future. The council is looking at the possibility of taking out a loan as well as using current investments to fund this. The objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which the funds are required, with flexibility to renegotiate loans should the council's long-term plans change.
- 5.2. As short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term rates, the Council could use some of its current investments held in Pooled Funds and /or other deposits it has out currently. The benefits of this (known as internal borrowing) will need to be closely monitored against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.
- 5.3. The large fall in gilt yields and Public Works Loan Board (PWLB) loan rates in the period leading up to and following the EU referendum vote result has provided an opportunity to borrow from the PWLB, which is the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide.
- 5.4. Arlingclose Ltd the council's treasury advisors will be consulted on all of the options available before any decisions are made.
- 5.5. In early November 2016 the Council received another dividend payment from the administrators of Kaupthing Singer & Friedlander amounting to £8,126 (0.05p in the £). This now takes the total returned to 84.25%.

6. FINANCIAL IMPLICATIONS

The original investment interest budget for 2016/17 was set at £657,500 which was based on an average balance of £33.669 million from all the different type of investments (e.g. fixed term deposits, pooled funds, bonds) achieving an overall average return of 1.95%. The breakdown of the budget is as follows:

	2016/17 Budget (£)	2016/17 Estimate Outturn
Pooled Fund Managers	249,700	300,300
In-House Investments	68,500	80,000
Hanover Housing Assoc	167,500	167,500
Bonds	171,800	168,600
Total	657,500	716,400

The forecast outturn for 2016/17 is reflecting a worst case model that some Pooled Funds will be recalled over November / December to finance the asset purchase in September 2016. Although this is the planned course of action, at present the Council's cash flow has allowed those funds to continue within the Pooled Funds portfolio. Consequently, the longer this is sustained the level of return will improve from the current surplus of £50,600 within Pooled Funds. If the Bank of England do make a further cuts to the Base Rate then the In- House investments returns could worsen.

Paul Stuart
GO Shared Service Head of Finance
(Author: Andrew Sherbourne), Tel: (01242 264337)
Date: 23rd November 2016
Background Papers
Valuation 31 October 2016 – Pooled Funds & Bonds
In – House investment as at 31 October 2016

SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 31 OCTOBER 2016

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Long Term	Fitch Credit Rating		
						Short Term	Viability	Support
IN HOUSE MANAGEMENT								
Hanover Housing Association	24.07.13	5,000,000	24.07.18	3.35%	A	FI	a	5
Barclays	05.08.16	1,000,000	07.11.16	0.20%	A	FI	a	5
Lloyds	01.04.16	2,000,000	31.03.17	1.05%	A+	FI	a	5
Lloyds	13.04.16	1,700,000	13.04.17	1.05%	A+	FI	a	5
Lloyds	15.04.16	1,000,000	13.01.17	0.90%	A+	FI	a	5
Rabobank International	06.05.16	1,000,000	06.02.17	0.70%	AA-	FI	a	5
Nationwide Building Society	16.05.16	2,000,000	16.11.16	0.71%	A	FI	a	5
Nationwide Building Society	05.07.16	1,000,000	05.01.17	0.55%	A	FI	a	5
Nationwide Building Society	01.08.16	1,000,000	01.02.17	0.48%	A	FI	a	5
Canadian Imperial Bank of Commerce	18.10.16	1,000,000	18.10.17	0.64%	AA-	FI	a	5
Deutsche Asset & Wealth MMF	31.10.16	690,000		0.35%	AAAmmf			
Goldman Sachs MMF	31.10.16	300,000		0.27%	AAAmmf			
Invesco AIM MMF	31.10.16	1,610,000		0.34%	AAAmmf			
TOTAL	IN-HOUSE							
INVESTMENTS		19,300,000						
ICELANDIC BANK DEPOSITS								
Kaupthing Singer Friedlander	02.07.07	130,702		-				
TOTAL ICELANDIC DEPOSITS		130,702						

Appendix B

West Oxfordshire DC - Pooled Funds

	Insight Liquidity Plus Fund - Share Class 3		Payden & Rygel Sterling Reserve Fund Accumulation		UBS Multi Asset Income Fund - L Class Accumulation Gross		Aberdeen (SWIP) Absolute Return Bond Fund - D Class Accumulation	
Transaction Ref	33544		AA1771001		486436		P3B/003072Z/1	
Date of purchase	31/03/2014		28/03/2014		28/03/2014		25/03/2014	
Number of units/shares	1,520,045.60		189,845.18		1,866,019.78		3,676,470.59	
Purchase Price £	1.31575		10.5349		0.536		1.088	
Initial investment 2013/14 £		2,000,000		2,000,000		1,000,000		4,000,000
Initial investment 2014/15								
Transaction Ref	A30R682650459433		1474		552409		55105862	
Date of switch	17/08/2015		07/08/2015		07/08/2015		07/08/2015	
Ticker/Number of income shares	INLIQP5	2,051,799.72	PAYSRS	200,707.34	UMAIGLI	3,928,254.42	ABARBII	1,884,216.38
Price of income shares /Value	0.98397	2,018,909	10.0951	2,026,161	0.5204	2,044,264	0.9799	1,846,344
Balance as at 31/03/2016	0.9831	2,017,186	10.0942	2,034,974	0.4962	1,949,200	0.9501	1,790,194
Capital variance to 31/3/2015		1,149		9,306		-115,924		
Variance to initial investment		17,186		34,974		-50,800		-123,516
Apr-16	0.9827	2,016,386	10.0971	2,026,562	0.4965	1,950,378	0.9521	1,793,962
May-16	0.9818	2,014,519	10.1107	2,029,292	0.4977	1,955,092	0.9559	1,801,122
Jun-16	0.9813	2,013,328	10.1084	2,028,830	0.5023	1,973,162	0.9525	1,794,716
Jul-16	0.9818	2,014,395	10.1277	2,032,704	0.5087	1,998,303	0.959	1,806,964
Aug-16	0.9831	2,017,042	10.1445	2,036,076	0.5146	2,021,480	0.9567	1,802,630
Sep-16	0.9837	2,018,314	10.1326	2,033,687	0.5148	2,022,265	0.9612	1,811,109
Oct-16	0.9838	2,018,561	10.1246	2,032,082	0.5043	1,981,019	0.9644	1,817,138
Capital variance to 31/3/2016		1,375		-2,892		31,819		26,944
Variance to initial investment		18,561		32,082		-18,981		-96,572

	M&G Strategic Corporate Bond Fund I Class Accumulation		Schroders Income Maximiser Fund - Z Class Accumulation		Threadneedle Global Equity Income Fund - Z Class Accumulation Net		M&G Global Dividend Fund - Class I Accumulation	
Transaction Ref			16426876		6673718		226768331	
Date of purchase			08/04/2014		01/04/2014		26/03/2014	
Number of units/shares			1,509,206.16		973,709.84		489,993.90	
Purchase Price £			0.6626		1.027		2.041	
Initial investment 2013/14 £								1,000,000
Initial investment 2014/15				1,000,000		1,000,000		
Transactions 2015/16								
Number of units/shares	86,261.18							
Purchase/Sale Price £	11.5927	1,000,000						
Apr-15			0.7375	1,113,040	1.143	1,112,950	2.2121	1,083,916
May-15	11.6181	1,002,191	0.7506	1,132,810	1.1608	1,130,282	2.2297	1,092,539
Jun-15	11.4077	984,042	0.7175	1,082,855	1.0877	1,059,104	2.1	1,028,987
Jul-15	11.4784	990,140	0.7184	1,084,214	1.0938	1,065,044	2.0796	1,018,991
Transaction Ref	236981915		184184431		10119872		23697193	
Date of switch	10/08/2015		06/08/2015		07/08/2015		10/08/2015	
Ticker/No. of income shares	MGSCBII	93,089.09	SCHIMZI	2,013,286.55	THGQZNI	907,898.55	MGGDIIG	616,095.77
Price of income shares /Value	10.6691	993,177	0.547	1,101,268	1.1792	1,070,594	1.6271	1,002,449
Balance as at 31/03/2016	10.6371	990,198	0.4831	972,619	1.239	1,124,886	1.662	1,023,951
Capital variance to 31/3/2015				-132,422		3,075		-51,340
Variance to initial investment		-9,802		-27,381		124,886		23,951
	<i>Div payable quarterly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	
Apr-16	10.7343	999,246	0.5002	1,007,046	1.2419	1,127,519	1.6583	1,021,672
May-16	10.7737	1,002,914	0.4946	995,772	1.2236	1,110,905	1.6366	1,008,302
Jun-16	10.793	1,004,710	0.4735	953,291	1.3111	1,190,346	1.7391	1,071,452
Jul-16	11.1338	1,036,435	0.4959	998,389	1.3869	1,259,164	1.8216	1,122,280
Aug-16	11.4052	1,061,700	0.5113	1,029,393	1.3807	1,253,536	1.8794	1,157,890
Sep-16	11.2879	1,050,780	0.5031	1,012,884	1.3918	1,263,613	1.9286	1,188,202
Oct-16	11.0482	1,028,467	0.5191	1,045,097	1.3693	1,243,185	2.0277	1,249,257
Capital variance to 31/3/2016		38,269		72,478		118,299		225,306
Variance to initial investment		28,467		45,097		243,185		249,257