

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE
WEDNESDAY 1 FEBRUARY 2017

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 December 2016.

2. RECOMMENDATION

That treasury management activity and performance for the period 1 April 2016 – 31 December 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 December 2016 rose to £23.074m in line with cash-flow forecasts for 2016/17 achieving a return of 1.21% 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. The People for Places Bond amounting to £2.3m matured on the 27th December 2016. The council now has only the A2D Bond remaining which cost £2.5m and was valued at £2.758m on 31 December 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 0.34% as at 31 December 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 December 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 December 2016 (annualised returns) | In-House | Bonds |
|--|-----------------|--------------|
| Net Return | 1.21% | 4.33% |

- 3.7 The current In-house investments have achieved a net return of 1.21% 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 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 December 2016 compared with the values at the close of the 2015/16 financial year. In the nine months of the year we have seen a gain of over £670k, with only one fund showing a negative capital value in this financial year to date.

It was decided after seeking advice from Arlingclose and based upon the views of the Committee to dissolve the Aberdeen Absolute Return Bond Fund holding as the fund had been performing poorly for several years. On the 12 December 2016 the council sold its units for £1.825m which was a deficit of £174.4k against the original investment of £2m.

Once the monies were returned from Aberdeen the council then invested £2m with the Royal London Enhanced Cash Plus Fund in early January 2017. This Fund will be added to the table below in the next monitoring report.

| | Initial Investment | 1 April Fund Value | 31 Dec Fund Value | Unrealised Gain / (Loss) for 2016/17 | Unrealised Gain / (Loss) to Initial Principal* |
|--------------------------------|--------------------|--------------------|-------------------|--------------------------------------|--|
| | £ | £ | £ | £ | £ |
| Insight LPF – Cash + | 2,000,000 | 2,017,186 | 2,018,827 | 1,641 | 18,827 |
| Payden & Rygel – Cash + | 2,000,000 | 2,034,974 | 2,033,808 | (1,166) | 33,808 |
| UBS – Bond / Equity | 2,000,000 | 1,949,200 | 1,973,162 | 23,962 | (26,838) |
| M&G Strategic – Bond | 1,000,000 | 990,198 | 1,024,818 | 34,620 | 24,818 |
| Aberdeen – Bond | 2,000,000 | 1,790,194 | 1,825,600 | 35,406 | (174,400) |
| Schroders – Equity | 1,000,000 | 972,619 | 1,080,128 | 107,509 | 80,128 |
| Threadneedle – Equity | 1,000,000 | 1,124,886 | 1,321,446 | 196,560 | 321,446 |
| M&G Global - Equity | 1,000,000 | 1,023,951 | 1,295,834 | 271,883 | 295,834 |
| December 2016 Sub Total | 10,000,000 | 10,113,014 | 10,748,023 | 635,009 | 748,023 |
| | | | | | |
| Aberdeen – Bond | 2,000,000 | 1,790,194 | 1,825,600 | 35,406 | (174,400) |
| | | | | | |
| December 2016 Total | 12,000,000 | 11,903,208 | 12,573,623 | 670,415 | 573,623 |
| Previous Report –October 2016 | | | 12,414,806 | 511,598 | 414,806 |

* Note – this excludes dividends paid to the Council

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%-0.60% and this is on target with the budget.

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%).

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 3.5% to 4% for the year though.

Aberdeen Absolute Return Bond Fund (now matured) – The Fund aimed 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. The Fund lost £174,400 in its capital value when it was sold off in December 2016.

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% 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 this year and has seen its capital grow by 17% in the first nine months of this financial year. Estimated income dividend return for the year is 4% - 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, and the fund has really improved over the financial year seeing its capital value rise by 26.5% recently. 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 The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries. Recent data present a more positive picture for the post-Referendum UK economy than predicted due to the continued strong household spending
- 4.2 The currency-led rise in CPI inflation (currently 1.2% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending. The depreciation in sterling will, however, assist the economy to rebalance away from spending. Given the pressure on household spending and business improvement, the rise in inflation is highly unlikely to diminish, largely due to weaker domestic demand. Export volumes are due to increase.
- 4.3 The Arlingclose central view for Base rate is to remain at 0.25%, but there is a low possibility of a drop to close to zero, with a very small chance of a reduction below zero.

| | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Sep-19 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Official Bank Rate | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 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 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |

5. FINANCIAL IMPLICATIONS

- 5.1 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 |

- 5.2 The forecast outturn for 2016/17 assumed some of the Pooled Funds to be recalled over November / December to finance the asset purchase in September 2016. At present, the Aberdeen bond has been sold and the cash has been re-invested in an alternative Pooled Fund, Royal London. However, the Council's overall cash position has not required us to sell investments as yet and the longer this is sustained the level of return will improve from the current surplus of £50,600 within Pooled Funds.
- 5.3 The sale of the Aberdeen bond will realise a loss from the original investment of £174,400 which will impact on the revenue account. It is planned to utilise the reserve previously set aside for Icelandic Investments, that was not required, to fully offset against this loss.

Paul Stuart
GO Shared Service Head of Finance
(Author: Andrew Sherbourne), Tel: (01242 264337)

Date: 13rd January 2017

Background Papers

Valuation 31 December 2016 – Pooled Funds & Bonds

In – House investment as at 31 December 2016

SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 31 DECEMBER 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 | 07.11.16 | 1,000,000 | 07.02.17 | 0.30% | 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 | 16.11.16 | 2,000,000 | 16.02.17 | 0.28% | 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 | 31.12.16 | 4,305,000 | | 0.28% | AAAmmf | | | |
| Goldman Sachs MMF | 31.12.16 | 1,520,000 | | 0.27% | AAAmmf | | | |
| Invesco AIM MMF | 31.12.16 | 1,120,000 | | 0.30% | AAAmmf | | | |
| TOTAL | IN-HOUSE | 23,645,000 | | | | | | |
| INVESTMENTS | | | | | | | | |
| ICELANDIC BANK DEPOSITS | | | | | | | | |
| Kaupthing Singer Friedlander | 02.07.07 | 122,576 | | - | | | | |
| TOTAL ICELANDIC DEPOSITS | | 122,576 | | | | | | |

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 | | 0000486436 | | P3B/003072Z/1 | |
| Date of purchase | 31/03/2014 | | 28/03/2014 | | 28/03/2014 | | 25/03/2014 | |
| Number of units/shares | 2,051,799.720 | | 200,707.339 | | 3,928,254.420 | | 1,898,502.620 | |
| Purchase Price £ | 1.31575 | | 10.5349 | | 0.536 | | 1.088 | |
| Initial investment 2013/14 £ | 2,000,000 | | 2,000,000 | | 2,000,000 | | 2,000,000 | |
| Apr-16 | 0.9827 | 2,016,386 | 10.0971 | 2,026,562 | 0.4965 | 1,950,378 | 0.9521 | 1,807,564 |
| May-16 | 0.9818 | 2,014,519 | 10.1107 | 2,029,292 | 0.4977 | 1,955,092 | 0.9559 | 1,814,779 |
| Jun-16 | 0.9813 | 2,013,328 | 10.1084 | 2,028,830 | 0.5023 | 1,973,162 | 0.9525 | 1,808,324 |
| Jul-16 | 0.9818 | 2,014,395 | 10.1277 | 2,032,704 | 0.5087 | 1,998,303 | 0.9590 | 1,820,664 |
| Aug-16 | 0.9831 | 2,017,042 | 10.1445 | 2,036,076 | 0.5146 | 2,021,480 | 0.9567 | 1,816,297 |
| Sep-16 | 0.9837 | 2,018,314 | 10.1326 | 2,033,687 | 0.5148 | 2,022,265 | 0.9612 | 1,824,841 |
| Oct-16 | 0.9838 | 2,018,561 | 10.1246 | 2,032,082 | 0.5043 | 1,981,019 | 0.9644 | 1,830,916 |
| Nov-16 | 0.9839 | 2,018,766 | 10.1389 | 2,034,952 | 0.4953 | 1,945,664 | 0.9642 | 1,830,536 |
| Dec-16 | 0.9839 | 2,018,827 | 10.1332 | 2,033,808 | 0.5023 | 1,973,162 | | 1,825,600 |
| Capital variance to 31/3/2016 | 1,641 | | (1,166) | | 23,962 | | 35,406 | |
| Variance to initial investment | 18,827 | | 33,808 | | (26,838) | | (174,400) | |

| | 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 | | | 0016426876 | | 0006673718 | | 0226768331 | |
| Date of purchase | | | 08/04/2014 | | 01/04/2014 | | 26/03/2014 | |
| Number of units/shares | 93,089.085 | | 2,013,286.550 | | 907,898.550 | | 616,095.772 | |
| Purchase Price £ | | | 0.6626 | | 1.0270 | | 2.041 | |
| Initial investment 2013/14 £ | | 1,000,000 | | | | | | 1,000,000 |
| Initial investment 2014/15 | | | 1,000,000 | | 1,000,000 | | | |
| 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 | 10.7930 | 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 |
| Nov-16 | 10.9372 | 1,018,134 | 0.5226 | 1,052,144 | 1.4076 | 1,277,958 | 2.0069 | 1,236,443 |
| Dec-16 | 11.0090 | 1,024,818 | 0.5365 | 1,080,128 | 1.4555 | 1,321,446 | 2.1033 | 1,295,834 |
| Capital variance to 31/3/2016 | | 34,620 | | 107,510 | | 196,560 | | 271,883 |
| Variance to initial investment | | 24,818 | | 80,128 | | 321,446 | | 295,834 |