

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE
WEDNESDAY 5 APRIL 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 – 28 February 2017.

2. RECOMMENDATIONS

That treasury management activity and performance for the period 1 April 2016 – 28 February 2017 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 28 February 2017 rose to £23.576m in line with cash-flow forecasts for 2016/17 achieving a return of 1.17% 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 £2.779m on 28 February 2017 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 0.32% as at 28 February 2017.
- 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 28 February 2017 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 28 February 2017 (annualised returns)	In-House	Bonds
Net Return	1.17%	4.33%

- 3.7 The current In-house investments have achieved a net return of 1.17% which is 0.85% 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 February 2017 compared with the values at the close of the 2015/16 financial year. In the eleven months of the year we have seen a gain of over £825k, 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 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 investment is now included in the table below.

	Initial Investment	1 April Fund Value	28 Feb 17 Fund Value	Unrealised Gain / (Loss) for 2016/17	Unrealised Gain / (Loss) to Initial Principal
	£	£	£	£	£
Insight LPF – Cash +	2,000,000	2,017,186	2,019,361	2,175	19,361
Payden & Rygel – Cash +	2,000,000	2,034,974	2,038,444	3,470	38,444
UBS – Bond / Equity	2,000,000	1,949,200	1,999,481	50,282	(519)
M&G Strategic – Bond	1,000,000	990,198	1,037,562	47,364	37,562
Schroders – Equity	1,000,000	972,619	1,100,261	127,642	100,261
Threadneedle – Equity	1,000,000	1,124,886	1,358,943	234,056	358,943
M&G Global - Equity	1,000,000	1,023,951	1,350,051	326,099	350,051
Aberdeen – Bond-Closed – Sold December 2016	2,000,000	1,790,194	0	35,406	(174,400)
Royal London Cash + - Purchased January 2017	2,000,000	0	1,998,823	(1,177)	(1,177)
February 2017 Total	12,000,000	11,903,208	12,902,926	825,317	728,526
Previous Report – December 2016			12,573,623	670,415	573,623

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 for a net return equivalent to 0.125% above the 3 month sterling LIBID (currently 0.32%). The performance for 2016/17 is estimated to make a return of 0.70% and income close to £15k.

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 0.78% is estimated for the year, slightly up on the budgeted return (0.70%) amounting to income of £15.5k.

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 two reports. The fund has earned £77k income which is a return of 3.79% for the year.

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 in December 2016.

Royal London Enhanced Cash Plus Fund – The fund invests in high quality bonds, cash, deposits, money market instruments, floating rate notes and short dated debt securities. The investment objective is capital preservation combined with the production of income. The fund will seek to outperform its benchmark, 7 day sterling LIBID over the 12 month rolling period.

Income of just over £6k is expected at the end of March 2017 with an annualised return of 1.24%.

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 6.57% compared with a budgeted estimate of 5%. Income dividend of £72,300 is forecast for the 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. The value of this fund has risen strongly this year and has seen its capital grow by 24% in eleven months this financial year. Estimated income dividend return for the year is 4% which is income of around £45k.

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. The fund has improved over the financial year seeing its capital value rise by 31.8% over the eleven months to date. Income of £36,500 has been returned on this fund which equates to 3.65% 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 3.06% is expected from income dividends this year which equates to around £30k.

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 As expected, there are signs that the rise in the UK inflation rate is beginning to dampen economic growth, and with employment levelling off and real wage growth declining, a recovery back to strong 2016 rates is unlikely.
- 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

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 Forecast Outturn £
Pooled Fund Managers	249,700	344,700
In-House Investments	68,500	104,500
Hanover Housing Assoc	167,500	168,000
Bonds	171,800	168,300
Total	657,500	785,500

The forecast outturn for 2016/17 reflected as at the end of February 2017 shows an expected healthy surplus of around £128k, primarily made up from the Pooled Funds £95k and the in house team £36k. On top of this the Pooled Funds have gained £825k over the financial year;

It should be noted the sale of the Aberdeen bond realised 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.

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Background Papers
Valuation 28 February 2017 – Pooled Funds & Bonds
In – House investment as at 28 February 2017

SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 28 February 2017

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
Central Bedfordshire Council	11.01.17	2,000,000	31.3.17	0.22%				
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	13.01.17	1,000,000	15.01.18	0.90%	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	28.02.17	2,110,000		0.27%	AAAmmf			
Goldman Sachs MMF	28.02.17	1,390,000		0.21%	AAAmmf			
Invesco AIM MMF	28.02.17	5,000,000		0.29%	AAAmmf			
TOTAL	IN-HOUSE							
INVESTMENTS		21,200,000						
ICELANDIC BANK DEPOSITS								
Kaupthing Singer Friedlander	02.07.07	122,576		-				
TOTAL ICELANDIC DEPOSITS		22,328						

Appendix B

West Oxfordshire DC - Pooled Funds

	Insight Liquidity Plus Fund - Share Class 3		Payden & Rygel Sterling Reserve Fund - Accumulation		Royal London Enhanced Cash Plus Fund - Income		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								
Transaction Ref	A30R682650459433		1474				0000552409	
Date of switch	17/08/2015		07/08/2015		06/01/2017		07/08/2015	
Ticker/Number of income shares	INLIQP5	2,051,799.720	PAYSRSD	200,707.339	RLECPYG	2,002,026	UMAIGLI	3,928,254.420
Price of income shares /Value	0.98397	2,018,909	10.0951	2,026,161	0.9990	2,000,004	0.5204	2,044,264
Apr-16	0.9827	2,016,386	10.0971	2,026,562	-	-	0.4965	1,950,378
May-16	0.9818	2,014,519	10.1107	2,029,292	-	-	0.4977	1,955,092
Jun-16	0.9813	2,013,328	10.1084	2,028,830	-	-	0.5023	1,973,162
Jul-16	0.9818	2,014,395	10.1277	2,032,704	-	-	0.5087	1,998,303
Aug-16	0.9831	2,017,042	10.1445	2,036,076	-	-	0.5146	2,021,480
Sep-16	0.9837	2,018,314	10.1326	2,033,687	-	-	0.5148	2,022,265
Oct-16	0.9838	2,018,561	10.1246	2,032,082	-	-	0.5043	1,981,019

Nov-16	0.9839	2,018,766	10.1389	2,034,952	-	-	0.4953	1,945,664
Dec-16	0.9839	2,018,827	10.1332	2,033,808	-	-	0.5023	1,973,162
Jan-17	0.9840	2,018,930	10.1321	2,033,587	0.9994	2,000,825	0.5004	1,965,699
Feb-17	0.9842	2,019,361	10.1563	2,038,444	0.9984	1,998,823	0.5090	1,999,481
Capital variance to 31/3/2016		2,175		3,470		(1,181)		50,282
Variance to initial investment		19,361		38,444		(1,181)		(519)

	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 (sale 2014/15)						
Transaction Ref	0055105862		0236981915			
Date of switch	07/08/2015		10/08/2015			
Ticker/Number of income shares	ABARBII		MGSCBII			
Price of income shares /Value	1,884,216.379		93,089.085			
	SCHIMZI		2,013,286.550			
Apr-16	0.9501	1,790,194	10.7343	999,246	0.5002	1,007,046
May-16	0.9521	1,793,962	10.7737	1,002,914	0.4946	995,772
Jun-16	0.9559	1,801,122	10.7930	1,004,710	0.4735	953,291
Jul-16	0.9525	1,794,716	11.1338	1,036,435	0.4959	998,389
Aug-16	0.9590	1,806,964	11.4052	1,061,700	0.5113	1,029,393
Sep-16	0.9567	1,802,630	11.2879	1,050,780	0.5031	1,012,884
Oct-16	0.9612	1,811,109	11.0482	1,028,467	0.5191	1,045,097
Nov-16	0.9644	1,817,138	10.9372	1,018,134	0.5226	1,052,144
Dec-16	0.9642	1,816,761	11.0090	1,024,818	0.5365	1,080,128
Jan-17	HOLDING SOLD 12TH DEC 2016		10.9612	1,020,368	0.5382	1,083,551
Feb-17			11.1459	1,037,562	0.5465	1,100,261
Capital variance to 31/3/2016	(1,825,600)					
Variance to initial investment	35,406		47,364		127,642	
	(174,400)		37,562		100,261	

	Threadneedle Global Equity Income Fund - Z Class Accumulation Net		M&G Global Dividend Fund - Class I Accumulation	
Transaction Ref				
Date of purchase	0006673718		0226768331	
Number of units/shares	01/04/2014		26/03/2014	
Purchase Price £	973,709.835		489,993.898	
Initial investment 2013/14 £	1.0270		2.041	
Initial investment 2014/15			1,000,000	
Additional investment 2014/15	1,000,000			
(sale 2014/15)				
Transaction Ref				
Date of switch	0010119872		023697193	
Ticker/Number of income shares	07/08/2015		10/08/2015	
Price of income shares /Value	THGQZNI	907,898.550	MGGDIIG	616,095.772
Mar-16	1.2390	1,124,886	1.6620	1,023,951
Apr-16	1.2419	1,127,519	1.6583	1,021,672
May-16	1.2236	1,110,905	1.6366	1,008,302
Jun-16	1.3111	1,190,346	1.7391	1,071,452
Jul-16	1.3869	1,259,164	1.8216	1,122,280
Aug-16	1.3807	1,253,536	1.8794	1,157,890
Sep-16	1.3918	1,263,613	1.9286	1,188,202
Oct-16	1.3693	,243,185	2.0277	1,249,257
Nov-16	1.4076	1,277,958	2.0069	1,236,443
Dec-16	1.4555	1,321,446	2.1033	1,295,834
Jan-17	1.4664	1,331,342	2.1306	1,312,654
Feb-17	1.4968	1,358,943	2.1913	1,350,051
Capital variance to 31/3/2016				
Variance to initial investment	234,056		326,099	
	358,943		350,051	