

**WEST OXFORDSHIRE DISTRICT COUNCIL**  
**FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE**  
**WEDNESDAY 7 FEBRUARY 2018**

**TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2017/18**

**REPORT OF GROUP MANAGER GO SHARED SERVICES**

(Contact: Jenny Poole: - Tel. 01285 623313)

**1. PURPOSE**

To advise members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2017 – 31 December 2017.

**2. RECOMMENDATIONS**

- (a) That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2017 – 31 December 2017 are noted.
- (b) The Committee considers any changes to pooled funds in line with advice from the Council's Treasury Management Advisors.

**3. BACKGROUND**

**Investment Portfolio Background**

- 3.1. The in-house investment balance amounted to £17.265m at 1 April 2017 inclusive of the long term loan to Hanover Housing Association. The average balance of investments for the period to 31 December 2017 rose to £27.38m in line with cash-flow forecasts for 2017/18 achieving a return of 0.97% for the period.
- 3.2. Bonds purchased in 2013/14 (at a cost of £2.5m) were valued at £2.785m at 31<sup>st</sup> March 2017 and are now valued at £2.747m on 31 December 2017 based on current mid-prices. This bond was acquired on a principle of holding to maturity with a coupon rate of 4.75%.
- 3.3. The performance of all funds is continually monitored and compared against the 3 month LIBID rate which was 0.32% as at 31 December 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 2017/18. New investments were made in line with policy as quoted in the Investment Strategy for 2017/18:
  - 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 2017 are detailed in Appendix A.

### Investment Performance

- 3.6 Performance Achieved for the period is shown below:-

<b>Performance of Fund I April 2017 to 31 October 2017 (annualised returns)</b>	<b>In-House</b>	<b>Bonds</b>
Net Return	0.97%	4.75%

- 3.7 The current In-house investments have achieved a net return of 0.97% which is 0.65% 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 beginning of year with an average rate of 0.57% and an investment with a local authority returning 0.65%. However, it should be noted in-house investments returns will fall during the second half of this financial year due to income from Council Tax and Business Rates falls dramatically in February and March so investment balances will decrease over this period of time.
- 3.8 The table below shows the current valuations of the Pooled Funds portfolio at the end of December 2017 compared with the values at the close of the 2016/17 financial year. In the seven months of the year we had seen a small capital loss of £18,103 reported in October 2017 to now showing a healthy capital gain of £99,231 by the end of December 2017. The table below shows the current valuations of the Pooled Funds portfolio at the end of December 2017 compared with the values at the close of the 2016/17 financial year.

	Initial Investment	1 Apr 17 Fund Value	31 Dec 17 Fund Value	Dividends paid out in 2017/18 as at 31 Dec 2017	Unrealised Gain / (Loss) for 2017/18	Unrealised Gain / (Loss) to Initial Principal
	£	£	£	£	£	£
Insight LPF – Cash +	2,000,000	2,020,017	2,019,956	7,194	(61)	19,956
Payden & Rygel –Cash+	2,000,000	2,045,356	2,044,071	10,120	(1285)	44,071
UBS – Bond / Equity	2,000,000	2,004,981	2,007,338	61,281	2,357	7,338
M&G Strategic – Bond	1,000,000	1,030,971	1,049,319	19,171	18,348	49,319
Royal London Cash +	2,000,000	2,000,224	1,992,016	18,775	(8,208)	(7,984)
Schroders – Equity	1,000,000	1,086,168	1,086,772	45,357	604	86,772
Threadneedle – Equity	1,000,000	1,379,098	1,391,718	39,561	12,620	391,718
M&G Global - Equity	1,000,000	1,349,619	1,424,475	30,401	74,856	424,475
<b>October 2017 Total</b>	<b>12,000,000</b>	<b>12,916,434</b>	<b>13,015,665</b>	<b>231,860</b>	<b>99,231</b>	<b>1,015,665</b>

**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 0.19%). The performance for 2017/18 is estimated to make a return of 0.30% to 0.45% which 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 is now slightly above the estimate of 0.60% for the year (currently 0.66% annualised)

**UBS Multi-Asset Income Fund** – The fund seeks to provide an income, through a diversified portfolio of investments. The fund is expected to return income of around 4% for the year.

**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 return is estimated to return around 1.25%.

**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 which currently looks to be on target (7.46%).

**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 steadily in the nine months of this financial year. Estimated income dividend return for the year is 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 continually been improving recently. Income return on this fund is expected to be around 3% - 3.50% 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 3.70% is expected from income dividends for this year.

#### 4. ECONOMIC AND INTEREST RATE FORECAST

- 4.1 The MPC increased Bank Rate in November 2017 to 0.5%. The rise was questionable based on the available economic data. Market rate expectations are broadly unchanged since the rise and policymakers continue to emphasise that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- 4.2 Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the Brexit negotiations. Policymakers have revised to lower the supply capacity of the UK economy, suggesting inflationary growth is more likely. However the MPC will be wary of raising rates much further amid low business and household confidence.
- 4.3 The UK labour market data has been a positive economic indicator with the latest statistics released by the ONS for the three months to November 2017 show that the number of people in work increased, the number of unemployed people was little changed, and the number of people aged from 16 to 64 not working and not seeking or available to work decreased. The unemployment rate fell to 4.3% down from 4.8% a year earlier and joint lowest since 1975. The employment rate was 75.3%, up from 74.5% for a year earlier. Nominal wages including and excluding bonuses increased by 2.4% and 2.5% respectively. Real wages fell by 0.2% including bonuses and fell by 0.5% excluding bonuses compared with a year earlier .
- 4.4 The view of Arlingclose Interest rate forecast is to remain at 0.50% over the medium term. The risks to the forecast are broadly balanced on both sides as can be seen from the table below.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Official Bank Rate												
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Central case	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

## 5. FINANCIAL IMPLICATIONS

- 5.1 The original investment interest budget for 2017/18 was set at £607,300 which was based on an average balance of £35.545 million from all the different type of investments (e.g. fixed term deposits, pooled funds, bonds) achieving an overall average return of 1.70%.
- 5.2 The breakdown of the budget and estimated performance for the year is as follows:

	2017/18 Budget	2017/18 Estimate Outturn
Pooled Funds	249,300	308,000
In-House Investments	71,700	94,000
Hanover Housing Association	167,500	167,500
Bonds	118,800	118,800
<b>Total</b>	<b>607,300</b>	<b>688,300</b>

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Date: 25th January 2018  
Background Papers  
Valuation 31 December 2017 – Pooled Funds & Bonds  
In – House investment as at 31 December 2017

## SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 31 DECEMBER 2017

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Fitch Credit Rating	
					Long Term	Short Term
<b>IN HOUSE MANAGEMENT</b>						
Hanover Housing Association	24.07.13	5,000,000	24.07.18	3.35%	A	FI
Rabobank International	19.10.17	1,000,000	18.10.18	0.72%	AA-	FI
Lloyds	13.01.17	1,000,000	13.01.18	0.90%	A+	FI
Lloyds	31.03.17	2,000,000	29.03.18	0.80%	A+	FI
Lloyds	13.04.17	1,700,000	12.01.18	0.65%	A+	FI
Birmingham City Council	28.04.17	2,000,000	27.04.18	0.65%	AA	FI
Goldman Sachs International Bank	03.10.17	2,000,000	03.01.18	0.30%	A	FI
Standard Chartered Bank	15.11.17	1,000,000	15.02.18	0.46%	A+	FI
Rabobank International	06.09.17	1,000,000	05.09.18	0.41%	AA-	FI
Darlington Building Society	22.11.17	1,000,000	02.03.18	0.58%	N/A	
National Counties Building Society	15.11.17	1,000,000	22.02.18	0.57%	N/A	
Goldman Sachs MMF	31.12.17	1,770,000		0.23%	AAAmmf	
Invesco AIM MMF	31.12.17	1,470,000		0.35%	AAAmmf	
Deutsche Asset & Wealth MMF	31.12.17	1,070,000		0.29%	AAAmmf	
<b>TOTAL IN-HOUSE INVESTMENTS</b>		<b>23,010,000</b>				

**ICELANDIC BANK DEPOSITS**

Kaupthing Singer Friedlander	02.07.07	8,575		-		
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## West Oxfordshire DC - Pooled Funds

Bloomberg Ticker

INLIQP5

PAYSRSD

RLECPYI

UMAIGLI

	Insight Liquidity Plus Fund - Share Class 5		Payden & Rygel Sterling Reserve Fund - Income		Royal London Enhanced Cash Plus Fund - Income		UBS Multi Asset Income Fund - L Class Income Gross	
	<i>Div payable monthly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	
<b><u>2017-18</u></b>								
Apr-17	0.9844	2,019,771	10.1579	2,038,765	1.0002	2,002,426	0.5087	1,998,303
May-17	0.9848	2,020,551	10.1656	2,040,311	0.9981	1,998,222	0.5139	2,018,730
Jun-17	0.9874	2,025,947	10.1421	2,035,594	0.9975	1,997,021	0.5124	2,012,838
Jul-17	0.9847	2,020,366	10.1547	2,038,123	0.9992	2,000,424	0.5105	2,005,374
Aug-17	0.9846	2,020,223	10.1649	2,040,170	0.9955	1,993,017	0.5138	2,018,337
Sep-17	0.98452	2,020,038	10.1371	2,034,590	0.9948	1,991,616	0.5125	2,013,230
Oct-17	0.98450	2,019,997	10.1429	2,035,754	0.9958	1,993,618	0.5101	2,003,803
Nov-17	0.98455	2,020,099	10.1465	2,036,477	0.9935	1,989,013	0.5079	1,995,160
Dec-17	0.98448	2,019,956	10.1428	2,044,071	0.9950	1,992,016	0.5110	2,007,338
Capital variance to 31/3/2017		(61)		(1,285)		(8,208)		2,357
Variance to initial investment		19,956		44,071		(7,984)		7,338

	M&G Strategic Corporate Bond Fund I Class Accumulation		Schroders Income Maximiser Fund - Z Class Income		Threadneedle Global Equity Income Fund - Z Class Net		M&G Global Dividend Fund - Class I Income	
	<i>Div payable quarterly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	
<b><u>2017-18</u></b>								
Apr-17	11.1442	1,037,403	0.5355	1,078,115	1.4810	1,344,598	2.1065	1,297,806
May-17	11.3130	1,053,117	0.5510	1,109,321	1.5059	1,367,204	2.1253	1,309,388
Jun-17	11.1926	1,041,909	0.5290	1,065,029	1.5017	1,363,391	2.1412	1,319,184
Jul-17	11.2769	1,049,756	0.5330	1,073,082	1.4891	1,351,952	2.1343	1,314,933
Aug-17	11.3283	1,054,541	0.5334	1,073,887	1.4845	1,347,775	2.1763	1,340,809
Sep-17	11.1600	1,038,874	0.5337	1,074,491	1.4852	1,348,411	2.1581	1,329,596
Oct-17	11.2513	1,047,373	0.5383	1,083,752	1.5050	1,366,387	2.1874	1,347,648
Nov-17	11.2395	1,046,275	0.5332	1,073,484	1.5015	1,363,210	2.2064	1,359,354
Dec-17	11.2722	1,049,319	0.5398	1,086,772	1.5329	1,391,718	2.3121	1,424,475
Capital variance to 31/3/2017		<b>18,348</b>		<b>604</b>		<b>12,620</b>		<b>74,856</b>
Variance to initial investment		<b>49,319</b>		<b>86,772</b>		<b>391,718</b>		<b>424,475</b>