

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE
WEDNESDAY 11 APRIL 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 – 28 February 2018.

2. RECOMMENDATION

That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2017 – 28 February 2018 are noted.

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 28 February 2018 rose to £27.04m in line with cash-flow forecasts for 2017/18 achieving a return of 0.98% for the period.
- 3.2. Bonds purchased in 2013/14 (at a cost of £2.5m) were valued at £2.785m at 31st March 2017 and are now valued at £2.728m on 28 February 2018 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 annual average 3 month LIBID rate which was 0.27% as at 28 February 2018.
- 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 28 February 2018 are detailed in Appendix A.

Investment Performance

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

Performance of Fund I April 2017 to 28 February 2018 (annualised returns)	In-House	Bonds
Net Return	0.98%	4.75%

- 3.7 The current In-house investments have achieved a net return of 0.98% which is 0.71% above the 3 month LIBID rate for 2017/18. 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 final month of this financial year due to income from Council Tax and Business Rates falling dramatically in February and March, so investment balances will decrease further in March.
- 3.8 The table below shows the current valuations of the Pooled Funds portfolio at the end of February 2018 compared with the values at the close of the 2016/17 financial year. In the financial year to date we had seen a loss of £29,445 however the funds have increased by £857.6k since the original investments were made.
- 3.9 At the February FMOS Members were supportive of realising the capital gain on the M&G Global Dividend Fund and the Columbia Threadneedle Equity Income Fund and to re-invest the proceeds into three new funds – CCLA Diversified Income Fund, Columbia Threadneedle UK Equity Fund and the M&G Strategic Corporate Bond Fund. The treasury team are currently setting up the new funds before withdrawing the funds.

	Initial Investment	1 Apr 17 Fund Value	28 Feb 18 Fund Value	Dividends paid out in 2017/18 as at 28 Feb 2018	Unrealised Gain / (Loss) for 2017/18	Unrealised Gain / (Loss) to Initial Principal
	£	£	£	£	£	£
Insight LPF – Cash +	2,000,000	2,020,017	2,020,140	8,850	123	20,140
Payden & Rygel –Cash+	2,000,000	2,045,356	2,042,070	10,120	26,087	42,070
Royal London Cash +	2,000,000	2,000,224	1,986,811	22,955	(13,413)	(13,189)
UBS – Bond / Equity	2,000,000	2,004,981	1,951,950	78,565	(53,031)	(48,050)
M&G Strategic – Bond	1,000,000	1,030,971	1,044,953	27,594	13,982	44,953
Schroders – Equity	1,000,000	1,086,168	1,097,442	78,097	11,274	97,442
Threadneedle – Equity	1,000,000	1,379,098	1,344,053	47,716	(35,045)	344,053
M&G Global - Equity	1,000,000	1,349,619	1,370,197	38,650	20,578	370,197
October 2017 Total	12,000,000	12,916,434	12,857,616	312,547	(29,445)	857,616

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 0.27%). The performance for 2017/18 is estimated to make a return of 0.50% to 0.55% 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 0.68% annualised)

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 1.15%.

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. The fund is expected to return income of around 4% for the year though.

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.

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 (7.81%).

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 4.70%.

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 3.5% - 3.80% for the year.

4. ECONOMIC AND INTEREST RATE FORECAST

- 4.1 The MPC has raised expectations for further rises in Bank Rate, both sooner and to a higher level than previously anticipated by markets. Reiterating the view of the UK economy’s impaired supply capacity and survey data of higher private sector earnings growth, meaning inflationary outcomes are more likely, the MPC also revised the economic growth prospects slightly higher due to the pull of global economic momentum.
- 4.2 The additional moves made by the Bank to intentionally raise interest rate expectations suggests a wider strategy. By moving quickly and creating the conditions for monetary tightening, monetary policy will be a more effective weapon should downside Brexit risks crystallise.
- 4.3 CPI inflation fell from 3% in January to 2.7% in February 2018. Inflation is expected to ease further in the coming months although to remain above the 2% target. Pay growth continued to pick up. The unemployment rate remained low in the three months to January. The firming of shorter-term measures of wage growth in recent quarters and a range of survey indicators suggest pay growth will rise further in response to the tightening labour market. This provides increasing confidence that growth in wages and unit labour costs will pick up to target-consistent rates
- 4.4 The view of Arlingclose Interest rate forecast is for rates to rise twice in 2018 and once more in the first half of 2019. The risks are weighted to the downside as can be seen from the table below.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Official Bank Rate												
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Central case	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75

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	323,000
In-House Investments	71,700	116,170
Hanover Housing Association	167,500	167,500
Bonds	118,800	118,800
Total	607,300	725,470

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Background Papers
Valuation 28 February 2018 – Pooled Funds & Bonds
In – House investment as at 28 February 2018

SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 28 FEBRUARY 2018

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Fitch Credit Rating	
					Long Term	Short Term
IN HOUSE MANAGEMENT						
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	31.03.17	2,000,000	29.03.18	0.80%	A+	FI
Birmingham City Council	28.04.17	2,000,000	27.04.18	0.65%	AA	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	
Goldman Sachs International	03.01.18	2,000,000	03.04.18	0.50%	A	FI
Goldman Sachs MMF	28.02.18	120,000		0.35%	AAmmf	
Invesco AIM MMF	28.02.18	2,480,000		0.41%	AAmmf	
Deutsche Asset & Wealth MMF	28.02.18	2,380,000		0.40%	AAmmf	
TOTAL	IN-HOUSE	18,980,000				
INVESTMENTS						

ICELANDIC BANK DEPOSITS

Kaupthing Singer Friedlander	02.07.07	8,575		-		
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Appendix B

	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	
2017-18								
Apr-17	0.9844	2,019,771	10.1579	2,047,816	1.0002	2,002,426	0.5087	1,998,303
May-17	0.9848	2,020,551	10.1656	2,049,368	0.9981	1,998,222	0.5139	2,018,730
Jun-17	0.9874	2,025,947	10.1421	2,044,630	0.9975	1,997,021	0.5124	2,012,838
Jul-17	0.9847	2,020,366	10.1547	2,047,170	0.9992	2,000,424	0.5105	2,005,374
Aug-17	0.9846	2,020,223	10.1649	2,049,227	0.9955	1,993,017	0.5138	2,018,337
Sep-17	0.98452	2,020,038	10.1371	2,043,622	0.9948	1,991,616	0.5125	2,013,230
Oct-17	0.98450	2,019,997	10.1429	2,044,792	0.9958	1,993,618	0.5101	2,003,803
Nov-17	0.98455	2,020,099	10.1465	2,045,517	0.9935	1,989,013	0.5079	1,995,160
Dec-17	0.98448	2,019,956	10.1428	2,044,771	0.9950	1,992,016	0.5110	2,007,338
Jan-18	0.98469	2,020,387	10.1298	2,042,151	0.9951	1,992,216	0.5053	1,984,947
Feb-18	0.98457	2,020,140	10.1294	2,042,070	0.9924	1,986,811	0.4969	1,951,950
Capital variance to 31/3/2017		123		26,087		(13,413)		(53,031)
Variance to initial investment		20,140		42,070		(13,189)		(48,050)

	M&G Strategic Corporate Bond Fund I Class Accumulation		Schroders Income Maximiser Fund - Z Class Income		Threadneedle Global Equity Income Fund - Z Class Income Net		M&G Global Dividend Fund - Class I Income	
2017-18								
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
Jan-18	11.2821	1,050,240	0.5462	1,099,657	1.5251	1,384,636	2.2706	1,398,907
Feb-18	11.2253	1,044,953	0.5451	1,097,442	1.4804	1,344,053	2.2240	1,370,197
Capital variance to 31/3/2017		13,982		11,274		(35,045)		20,578
Variance to initial investment		44,953		97,442		344,053		370,197