

**WEST OXFORDSHIRE DISTRICT COUNCIL**  
**FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE**  
**WEDNESDAY 3 OCTOBER 2018**

**TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2018/19**

**REPORT OF CHIEF FINANCE OFFICER**

**(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 2018 – 31 August 2018.

**2. RECOMMENDATIONS**

That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2018 – 31 August 2018 be noted.

**3. BACKGROUND**

**Investment Portfolio Background**

3.1. The in- house investment balance amounted to £13.950m at 1 April 2018 inclusive of the long term loan to Hanover Housing Association. The average balance of investments for the period to 31 August 2018 rose to £24.577m in line with cash-flow forecasts for 2018/19 achieving a return of 0.99% for the period.

3.2. Bonds purchased in 2013/14 (at a cost of £2.5m) were valued at £2.737m at 31<sup>st</sup> March 2018 and are now valued at £2.713m on 31 August 2018 based on current mid-prices. Bond prices are volatile in nature. The Council acquired bonds with a view to holding to maturity to secure the investment yield. The capital volatility is therefore as expected.

3.3. The performance of all funds is continually monitored and compared against the 3 month LIBID rate which was 0.69% as at 31 August 2018.

3.4. The guidance on Local Government Investment in England gives priority to security and liquidity over yield 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 2018/19. New investments were made in line with policy as quoted in the Investment Strategy for 2018/19:

- 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.

3.5. 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.

- 3.6. 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.
- 3.7. The cash investments as at 31 August 2018 are detailed in the [Appendix](#).

### Investment Performance

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

<b>Performance of Fund   April 2018 to 31 August 2018 (annualised returns)</b>	<b>In-House</b>	<b>Bonds</b>
Net Return	1.12%	4.75%

- 3.9. The current In-house investments have achieved a net return of 1.12% which is 0.43% above the 3 month LIBID rate. The outperformance is due to the £5m loan to Hanover Housing Association at a rate of 3.35% which matured in July 2018. The Bank of England also raised interest rates in August 2018 to 0.75% and this has enabled the in-house team to achieve better rates across the board on Money Market Funds and short term (up to 1 year) deposits.
- 3.10. The table below shows the current valuations of the Pooled Funds portfolio at the end of August 2018 compared with the values at the close of the 2017/18 financial year. In the first five months of the year we have seen a capital gain of £193,442 and dividend returns compared with this time last year are up by £15.3k. The table below shows the current valuations of the Pooled Funds portfolio at the end of August 2018 compared with the values at the close of the 2017/18 financial year.
- 3.11. At the February 2018 FMOS meeting members were supportive of realising the capital gains made on M&G Global Dividend Fund and the Threadneedle Global Equity Fund. The monies were then re-invested into a further three funds –a further £1m invested with M&G Strategic Bond Fund and £1m each with Columbia Threadneedle UK Equity Income Fund and CCLA Diversified Income Fund. The performance of the M&G Global Dividend Fund and the Threadneedle Global Equity Fund is shown below:

	<b>Initial Investment</b>	<b>1 April Fund Value</b>	<b>31 August Fund Value</b>	<b>Dividends paid out in 2018/19 as at 31 August</b>	<b>Gain / (Loss) for 2018/19</b>	<b>Gain / (Loss) to Initial Principal</b>
Threadneedle – Equity	1,000,000	1,272,783	SOLD-1,321,537	-	48,754	321,537
M&G Global - Equity	1,000,000	1,299,900	SOLD-1,374,448	14,680	74,548	374,448
<b>Total</b>	<b>2,000,000</b>	<b>2,572,683</b>	<b>0</b>	<b>14,680</b>	<b>123,302</b>	<b>695,985</b>

- 3.12. Performance of other pooled funds is shown in the table below:

	Initial Investment	1 April Fund Value	31 August Fund Value	Dividends paid out in 2018/19 as at 31 August	Gain / (Loss) for 2018/19	Gain / (Loss) to Initial Principal
	£	£	£	£	£	£
Insight LPF – Cash +	2,000,000	2,019,976	2,018,540	6,074	(1,436)	18,540
Payden & Rygel – Cash+	2,000,000	2,037,998	2,039,631	4,012	1,633	39,631
UBS – Bond / Equity	2,000,000	1,938,201	1,926,023	38,890	(12,178)	(73,977)
M&G Strategic – Bond (original investment)	1,000,000	1,025,702	2,004,433	18,391	(21,269)	4,433
M&G Strategic – Bond (additional investment)	1,000,000	N/A				
Royal London Cash +	2,000,000	1,986,610	1,979,804	4,651	(6,806)	(20,196)
Schroders – Equity	1,000,000	1,056,975	1,098,248	26,853	41,273	98,248
CCLA Diversified – All	1,000,000	N/A	1,015,012	-	15,012	15,012
Threadneedle - UK Equity	1,000,000	N/A	1,053,911	29,303	53,911	53,911
<b>Realised Investments (see table above)</b>	<b>2,000,000 Withdrawn 2,000,000</b>	<b>2,572,683</b>	<b>0</b>	<b>14,680</b>	<b>123,302</b>	<b>695,985</b>
<b>August 2018 Total</b>	<b>£13,000,000</b>	<b>12,638,145</b>	<b>13,135,602</b>	<b>142,854</b>	<b>193,442</b>	<b>831,587</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 0.69%). The performance for 2018/19 is estimated to make a return of 0.80% to 0.95% which is slightly above budget target.

**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 not far from the estimate of 0.67% for the year (currently 0.80% 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 3.5 to 3.8% for the year against a budgeted return of 4%.

**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. As mentioned above a further £1m was added to the original £1m and returns are likely to be around 3.5% against a budgeted return of 2.5%.

**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 1.50% against a budgeted 1% return.

**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 and is on target to achieve this.

**CCLA Diversified Income Fund** – The aim of the fund is to provide a balanced return from income and capital growth over time. The portfolio invests with UK and overseas equities, property, bonds and cash. The fund aims to achieve a 3% annual return.

**Threadneedle UK Equity Income Fund** - The aim of the Fund is to provide income with the potential to grow the amount you invested as well. The Fund invests at least two-thirds of its assets in shares of UK companies. The Fund aims to achieve slow returns of income but also growth on the capital invested.

#### 4. ECONOMIC AND INTEREST RATE FORECAST

- 4.1. In line with market expectations, the Bank of England voted to increase Bank Rate to 0.75% in August. There were, however two surprises; the vote was unanimous and market expectations remained subdued despite this fact.
- 4.2. 4.2 The view is that the UK economy still faces a challenging outlook as the country exits the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.
- 4.3. 4.3 The MPC has maintained expectations of a slow rise in interest rates over the forecast. Arlingclose's view is that Bank Rate is to rise further in 2019, possibly to 1.25% as seen in the table below.

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
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	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>
Downside risk	0.00	0.00	0.50	0.50	0.75	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 2018/19 was set at £607,300 which was based on an average balance of £39.5 million from all the different type of investments (e.g. fixed term deposits, pooled funds, bonds) achieving an overall average return of 1.55%.
- 5.2. The breakdown of the budget and estimated performance for the year is as follows:

	2018/19 Budget	2018/19 Estimate Outturn
Pooled Funds	314,500	397,800
In-House Investments	119,500	120,000
Hanover Housing Association	54,500	54,500
Bonds	118,800	118,800
<b>Total</b>	<b>607,300</b>	<b>691,100</b>

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Date: 24th September 2018

### Background Papers

Valuation 31 August 2018 – Pooled Funds & Bonds  
In – House investment as at 31 August 2018

## SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 31 AUGUST 2018

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Fitch Credit Rating	
					Long Term	Short Term
IN HOUSE MANAGEMENT						
Rabobank International	06.10.17	1,000,000	05.09.18	0.41%	AA-	FI+
Rabobank International	19.10.17	1,000,000	18.10.18	0.72%	AA-	FI+
Lloyds	06.04.18	2,000,000	08.10.18	0.65%	A+	FI
Lloyds	01.06.18	3,000,000	30.11.18	0.75%	A+	FI
National Counties BS	01.06.18	2,000,000	07.09.18	0.62%	A+	FI
Santander UK Plc	13.07.18	2,000,000	14.01.19	0.76%	A	FI
National Counties BS	24.07.18	3,000,000	01.11.18	0.68%		
Nordea Bank AB	08.08.18	2,000,000	08.02.19	0.84%	AA-	FI+
North Lancashire Council	09.08.18	2,000,000	11.02.19	0.80	AA	FI+
Goldman Sachs MMF	31.08.18	1,745,000		0.61%	AAmmf	
Invesco AIM MMF	31.08.18	2,780,000		0.64%	AAmmf	
Deutsche Asset & Wealth MMF	31.08.18	2,210,000		0.64%	AAmmf	
<b>TOTAL IN-HOUSE INVESTMENTS</b>		<b>24,735,000</b>				

## ICELANDIC BANK DEPOSITS

Kaupthing Singer Friedlander	02.07.07	4,512		-		
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## BONDS

COUNTERPARTY	Book Cost (£)	Market Value (£)
A2D Bond (4.75%)	2,500,000	2,713,275

## MANAGED FUNDS

COUNTERPARTY	As at:	NOMINAL VALUE (£)	MARKET VALUE (£)
Royal London Cash Plus Fund	31.08.18	2,000,000	1,979,804
Payden Sterling Reserve Fund	31.08.18	2,000,000	2,039,631
M&G Strategic Corporate Bond Fund	31.08.18	2,000,000	2,004,433
Threadneedle UK Equity Fund	31.08.18	1,000,000	1,053,911
Insight Liquidity Plus Fund	31.08.18	2,000,000	2,018,540
UBS Multi-Asset Income Fund	31.08.18	2,000,000	1,926,023
Schroders Income Maximiser Fund	31.08.18	1,000,000	1,098,248
CCLA Diversified Income Fund	31.08.18	1,000,000	1,015,012
<b>TOTAL VALUE OF FUND</b>		<b>13,000,000</b>	<b>13,135,602</b>