

 WEST OXFORDSHIRE DISTRICT COUNCIL	West Oxfordshire District Council
Name and date of Committee	Finance and Management Overview & Scrutiny Committee 2 October 2019
Report Number	AGENDA ITEM No. 11
Subject	TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE
Wards affected	All
Accountable member	Cllr Toby Morris Deputy Leader and Cabinet Member for Resources
Accountable officer	Jenny Poole, Chief Finance Officer Jenny.Poole@westoxon.gov.uk 01285 623313
Summary/Purpose	To advise members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2019 – 31 August 2019.
Annexes	Annex A – List of Investments as at 31 st August 2019
Recommendation/s	<i>a) That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2019 – 31 August 2019 are noted.</i> <i>b) That FMOS endorse the opportunity for the Council to invest £1m in the Fundamentum Social Housing Real Estate Investment Trust (REIT) (as detailed in section 3 of this report).</i>
Corporate priorities	Provide efficient and value for money services, whilst delivering quality front line services
Key Decision	No
Exempt	No
Consultees/ Consultation	N/A

1. BACKGROUND

- 1.1.** The Council has an investment income target for 2019/20 to achieve £635,820 from its investment and treasury management activity. The income generated supports the Council's revenue budget.
- 1.2.** All Treasury Management dealings are undertaken in accordance with the approved Treasury Management Strategy 2019/20.
- 1.3.** The Council uses Arlingclose as specialist Treasury Management advisors to complement the officer resource in the treasury team.

2. MAIN POINTS

- 2.1.** The balance of in-house managed investments amounted to £17.050m at 1 April 2019. The average balance of investments for the period to 31 August 2019 rose to £26.303m in line with cash-flow forecasts for 2019/20, achieving a return of 0.85% for the period.
- 2.2.** Bonds purchased in 2013/14 (at a cost of £2.5m) were valued at £2.683m at 31st March 2019 and are now valued at £2.701m on 31 August 2019 based on current mid-prices. Bond prices are volatile in nature and do fluctuate in value. The Council acquired bonds with a view to holding to maturity to secure the investment yield. A change in capital values is therefore not unexpected.
- 2.3.** The performance of all funds is continually monitored and compared against the 3 month LIBID rate which was 0.67% as at 31 August 2019 (0.69% as 31.08.18).
- 2.4.** 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 the Council's investment remains the primary investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20. New investments were made in line with policy as quoted in the Investment Strategy Statement for 2019/20 (as part of the Treasury Management Strategy Statement for 2019/20):
 - 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.
- 2.5.** 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.
- 2.6.** 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.

- 2.7. The cash investments as at 31 August 2019 are detailed in Annex A.

Investment Performance

- 2.8. Performance Achieved for the period from 1st April to 31st August is as follows:

Investment performance 1st April 2019 to 31 August 2019 (annualised returns)	In-House	Bonds
Net Return	0.85%	4.75%

- 2.9. The current In-house investments have achieved a net return of 0.85% which is 0.18% above the 3 month LIBID rate. The outperformance is due to a number of investments made early in the year at rates close to 1%.
- 2.10. The table below shows the current valuations of the Pooled Funds portfolio at the end of August 2019, compared with the values at the start of the financial year. In the first five months of the year we have seen a capital gain of £19,543 and dividend returns compared with this time last year are up by £9.857k.
- 2.11. The table also shows the current valuations of the Pooled Funds portfolio at the end of August 2019 compared with the values at the start of the financial year.

	Initial Investment £	Fund Value 1 April £	Fund Value 31 August £	Dividends paid out in 2019/20 as at 31 August £	Gain / (Loss) for 2019/20 £	Gain / (Loss) to Initial Investment £
Insight LPF – Cash +	2,000,000	2,018,480				
Payden & Rygel –Cash+	2,000,000	2,036,002	2,044,630	4,939	8,628	44,630
UBS – Bond / Equity	2,000,000	1,918,167	1,939,379	44,389	21,212	(60,621)
M&G Strategic – Bond	2,000,000	1,990,660	2,071,400	19,710	80,740	71,400
Royal London Cash + (original investment)	2,000,000					
Royal London Short Dated Credit –Cash (new investment)		1,982,230	1,995,086	0	12,8565	(4,914)
Schroders – Equity	1,000,000	1,029,192	935,977	26,461	(93,215)	(64,023)
CCLA Diversified –All	1,000,000	1,001,460	1,040,112	9,677	38,652	40,112
Threadneedle - UK Equity	1,000,000	957,791	984,119	21,034	26,328	(15,881)
Kames Diversified-All	1,000,000	NA	1,007,988	11,032	7,988	7,988
Realised Investments (see table below)	Withdrawn 2,000,000	2,018,480	0	15,469	366	852
August 2019 Total	12,000,000	12,638,145	12,018,691	152,711	102,994	19,543

Descriptions of the Council's investments are as follows:

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 just above so far from the estimate of 0.86% for the year (currently 0.97% 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 against a budgeted return of 3.8%.

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. Returns are likely to be around 3.8% against a budgeted return of 3.5%.

Royal London Short Dated Credit Fund – The Fund aims to offer income and capital growth by investing in a diversified portfolio of investment grade short dated bonds (issued by companies and organisations which meet the Fund's predefined ethical criteria). These bonds will include corporate bonds, asset backed securities, floating rate notes, UK government bonds and supranational and agency bonds. Income return is estimated to return around 2.4% against a budgeted 2% 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 in its first quarter returned over 10%.

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. Current returns for the first quarter annualised are 3.86%

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. The fund aims to return between 2.5% and 3.5% and is currently achieving over 4%.

Kames Diversified Monthly Income Fund - The investment objective is to generate income with a target yield of approximately 5% per annum, with the potential for capital growth over the medium term (being any 5 year period). The fund is currently achieving 6.5% to date.

- 2.12.** After a strategy meeting with Arlingclose in March 2019 and discussions at FMOS in April 2019, it was agreed that in regard to the Insight Liquidity Fund and the Royal London Cash Plus Fund, to realise the investment (along with the capital gain) and re-invest into alternative funds. The Royal London Cash-Plus Fund was sold on the 1st April 2019 and switched to the Royal London Investment Grade Short Dated Credit Fund, with the Insight Liquidity Fund was sold on 11th June 2019 and partly re-invested with Kames Diversified Monthly Income Fund.

	Initial Investment	Fund Value (1 April)	Fund Value (31 August)	Dividends received in 2019/20 (as at 31 August)	Gain / (Loss) for 2019/20	Gain / (Loss) to Initial Principal
Royal London Enhanced Cash + Fund	2,000,000	1,982,230	SOLD-1,982,230	12,248	0	(17,770)
Insight Liquidity Fund	2,000,000	2,018,480	SOLD-2,018,622	3,221	142	18,622
Total	4,000,000	4,000,486	0	15,469	366	852

3. FUNDAMENTUM SOCIAL HOUSING REAL ESTATE INVESTMENT TRUST

- 3.1.** Following the implementation of changes to pooled funds detailed in part 2 of this report, the sum of £1 million has been made available to be reinvested into a new investment. The Council's Treasury Management Advisors, Arlingclose, have identified an opportunity to invest in a Real Estate Investment Trust (REIT). Fundamentum Property are investment advisors with a track record in the UK social housing market and are looking to raise £150 million to assist in purchasing 100-200 properties in the UK to be focussed on 'supported housing' for specific groups with individual special needs (e.g. learning disabilities, autism, etc.)

- 3.2. The finalised prospectus on the REIT investment should be available by the end of September and an offer period will commence from 25th September – 25th October. The launch of the fund is expected at the end of October 2019.
- 3.3. A secure dividend from the investment is targeted to earn around 5% per annum and is expected to increase broadly in line with inflation.
- 3.4. The Committee are being asked to support the investment of £1m in the Fundamentum Social Housing REIT (Real Estate Investment Trust) should the opportunity become available (as presented as 'Recommendation b' to this report).

4. ECONOMIC AND INTEREST RATE FORECAST

- 4.1. The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.
- 4.2. There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.
- 4.3. UK economic growth has stalled after a relatively strong Q1 2019. The ONS reported a Q2 growth rate of -0.2%. The MPC has downgraded its growth forecasts for future years. While the potential for divergent paths for UK monetary policy remain in the event of a withdrawal agreement, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy.
- 4.4. Inflation remains around target. The tight labour market risks medium-term domestically-driven inflationary pressure. Slower global growth should reduce the prospect of externally driven inflationary pressure, although political turmoil could push up oil prices.
- 4.5. The Arlinclose view on interest rates is that rates will stay fixed at 0.75% for the foreseeable future.

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
<u>Official Bank Rate (estimate)</u>												
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Central case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

5. FINANCIAL IMPLICATIONS

- 5.1. The Council's original investment interest budget for 2019/20 is £635,820. The budget was based upon an estimated average balance of £35.9 million, and returns from all the

different type of investments (e.g. fixed term deposits, pooled funds, bonds), achieving an overall average return of 1.66%.

- 5.2.** Based upon current performance and estimated returns for the remainder of the year, it is hoped that the Council will exceed its target for investment returns as follows:

Investment type	2019/20 Budget	2019/20 Estimated Outturn
Pooled Funds	370,020	344,800
In-House Investments	147,000	223,500
Bonds	118,800	118,800
Total	635,820	687,100

6. RISK ASSESSMENT

Officers ensure that all of its investments and treasury activity are undertaken in line with its approved Treasury Management Strategy.

7. BACKGROUND PAPERS AND RELATED DECISIONS

The Council approved its Treasury Management Strategy 2019/20 on 27th February 2019.