



**Council
12 July 2016
Investments**

Classification	Public.
Purpose	For decision.
Issue	This paper proposes a change to the way the investment portfolio is managed following a review of the GOsC investment strategy that has been in place for the previous five years.
Recommendations	<ol style="list-style-type: none">1. To agree to transfer the investment portfolio to either Brewin Dolphin or Prospect Wealth Management.2. To agree to delegate to the Executive the decision about which provider would best meet the investment principles.3. To agree there should be no change to the 120-day bond investment.
Financial and resourcing implications	These are set out in the paper.
Equality and diversity implications	None.
Communications implications	The Executive will communicate Council's decision to the relevant parties.
Annexes	Performance information for: <ol style="list-style-type: none">A. Real Return FundB. Standard Life Wealth medium/low portfolioC. Brewin Dolphin - Cautious with RiskD. Prospect Wealth Management
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Background

1. In 2010, Newton Investment Management was appointed to help the GOsC develop an investment strategy for investing in the stock market. In 2011, Council agreed an investment strategy for an investment of £500,000 which was based on the following key principles:
 - a. Good financial stewardship aims to increase the asset value above inflation;
 - b. The investment profile of the GOsC was to be at the lower end of medium risk across a five-year period;
 - c. The portfolio needed to be diverse in order to spread the risk of fund fluctuation;
 - d. The investment should be made via a fund route rather than a segregated portfolio;
 - e. No significant capital additions or withdrawals were anticipated;
 - f. The funds could be liquidated quickly if required;
 - g. That Council should review the investment strategy on a regular basis.
2. The investment strategy was developed following the fall in bank interest rates and the rise in inflation which had resulted in a lack of real return on the current investments.
3. The investment in the Real Return Fund¹ was made in 2011 and, five years on from that investment, a review of the investment strategy is necessary.
4. Council was advised at its meeting in May 2016 that the Executive was working up options for consideration. This paper presents those options and seeks a decision from Council.
5. It is also worth noting, as this forms part of the overall picture, that a separate £500k was invested with Secure Trust Bank in a 120-day bond. The bond was opened in late 2011 and will be referenced later in this paper at paragraphs 42-46.

¹ Newton's private client business was purchased by Standard Life Wealth in 2013. The transfer of assets from Newton to Standard Life Wealth was completed in October 2013.

Discussion – portfolio investment

Investment strategy principles

6. As part of the Council paper in May 2016, the Executive expressed its view that the principles which underpin the investment strategy remained current, particularly the need to maintain the value of the asset. Council expectations should be managed in that making any change to the portfolio is unlikely to result in the value of the asset being significantly enhanced, but that protecting the capital sum remains the priority.
7. In light of the recent 'Brexit' decision, this objective remains as pertinent today as it did in 2011 and it should be a fundamental factor in our future decision making.
8. The Executive presents options within this paper, from the existing provider and from new providers, which are based on these investment principles outlined above.

Real Return Fund performance - existing investment portfolio

9. Standard Life Wealth advise the philosophy behind the Real Return Fund is that while it may have a target return of 1 month Libor² + 4% as its stated objective, preservation of capital is of greater importance. The return target remains important but only if the risks taken to achieve it are in proportion.
10. For the past few years the Real Return Fund has been cautiously positioned predominately because of concerns about rising debt levels in the global economy.
11. It was agreed when launching the investment strategy that income generated is reinvesting back into the fund in furtherance of the aim of maintaining the overall value of capital.
12. GOsC invested £500,000 in the Real Return Fund in 2011. As at 31 March 2016, the market value of the fund stood at £569k. The market value of the fund had increased by 3.64% from the valuation as at 31 December 2015 (£549k).
13. The associated charges for investing in this portfolio are 1.665%.
14. Annex A provides information about the performance of the Real Return Fund.

² Libor - The London Interbank Offered Rate is the average interest rate estimated by leading banks in London that they would charge if borrowing from other banks.

Standard Life Wealth: alternative portfolio

15. The Executive approached Standard Life Wealth and asked them to provide the GOsC with alternative portfolio options. The GOsC received one option which was to transfer the funds to a Libor +3% Target Return strategy which is a medium/low risk profile.
16. The portfolio is described as aiming to achieve capital growth within the agreed risk level of medium/low. This is defined as GOsC accepting a moderate amount of risk over an agreed time horizon.
17. The proposed portfolio would consist of investments within a range of asset classes and more information can be found in the table at paragraph 31.
18. The associated charges for investing in this portfolio would be equivalent to 1.675%.
19. Annex B provides information about the performance of the Standard Life Wealth medium/low portfolio.

Alternative proposals

20. The Executive has also received two alternative proposals from Brewin Dolphin and Prospect Wealth Management which were obtained through an existing relationship the GOsC has with Ascot Lloyd, an organisation that is involved in the management of the staff group personal pension plan.

Brewin Dolphin

21. The proposal from Brewin Dolphin is an investment portfolio managed on a discretionary basis, with the portfolio invested in collective securities allowing for a greater diversification than might be possible with direct equity investment.
22. Brewin Dolphin, having considered the investment principles, believe the Council's approach to risk to be compatible with Brewin Dolphin Risk Category 2 - Cautious with Risk.
23. The proposed portfolio would consist of investments within a range of asset classes and more information can be found in the table at paragraph 31.
24. The associated charges for investing in this portfolio would be c1.60%, although we have not spoken directly with this provider and the final charge would need to be confirmed.
25. Annex C provides information about the historical performance of the Brewin Dolphin portfolio.

Prospect Wealth Management

26. The proposal from Prospect Wealth Management is an investment portfolio managed on a discretionary basis for investment in an actively managed global portfolio of funds.
27. Prospect Wealth Management, having considered the investment principles, believes the Council's approach to risk to be compatible with a split between bonds and equities; however, the exact weighting of the portfolio would be determined after discussion with the GOsC.
28. The proposed portfolio would consist of investments within a range of asset classes and more information can be found in the table at paragraph 31.
29. The associated charges for investing in this portfolio would be c1.91%, which is higher than what we are currently charged. We have not spoken directly with this provider and we would be looking to negotiate a better rate if they were to be the preferred provider.
30. Annex D provides information about the performance of the Prospect Wealth Management portfolio.

Investment options: asset classes

31. The investment proposals suggest investment in a range of different asset classes. The table below provides more information.

Asset class	Real Return Fund	Standard Life Wealth	Brewin Dolphin	Prospect Wealth
Cash	5.2%	1.1%	3.5%	1.8%
Fixed interest/ Bonds	37.3%	15.8%	25.5%	15%
UK equity	7.2%	14.9%	34%	47.5%
Overseas equity	34.5%	32.6%	19%	20.1%
Alternatives	15.8%	35.6%	18%	15.6%

Other considerations

32. Charitable status – Council has previously committed to submitting a charitable status application and the Executive is currently taking this forward. Council needs to be mindful that the decision to pursue charitable status will potentially open up alternative investment opportunities which are not considered as part of this paper. In the future, if a more favourable opportunity was to become available, Council may wish to reappraise the investment strategy.
33. Interaction with investment provider – while the existing investment portfolio has arguably achieved its main objective which was to protect the value of the

asset, the interaction between GOsC and the current provider has been limited and generally when GOsC has required information for Council or for audit purposes. The proposal received from Standard Life Wealth came at our prompting and not through an active recommendation from the current provider.

Options

34. The Executive has identified four options for Council:
- a. Remain invested in the Real Return Fund
 - b. Remain with Standard Life Wealth but switch to the medium/low risk portfolio
 - c. Transfer the investment to Brewin Dolphin
 - d. Transfer the investment to Prospect Wealth Management.

Summary

35. The Executive agree with the point made at the previous Council meeting which was that changing the investment portfolio is unlikely to result in a significant increase in the value of the asset. However, the Executive takes the view it is more prudent and a mitigation of risk for there to be a more proactive management of our investment portfolio.
36. Critically, the preservation of the capital has to be our concern and we need to have confidence in the investment team that we charge with achieving this objective. A more proactive team that is prepared to engage with the GOsC will provide a greater degree of assurance.
37. For this to take effect, we feel it will be necessary to change to a new provider as the existing arrangement is not providing sufficient for our requirements.
38. Additionally we believe we would be able to obtain a more favourable charging structure for our investment portfolio by transferring from the current provider.
39. Although the Executive has received proposals from Brewin Dolphin and Prospect Wealth Management, we have not met the investment management teams in person and we feel that this will be a critical step before any final decision is reached.
40. In particular, this would allow the Executive to test which provider was able to demonstrate they could meet the key investment principles specifically the need to preserve the value of the asset.

41. Council is asked to provide delegated authority to the Executive to meet with the two providers and to make a decision about which provider would best meet the investment principles.

Discussion – 120-day bond investment

42. As mentioned at paragraph 5, GOsC has £500k invested 120-day bond with Secure Trust Bank. This bond currently pays interest at 1.99% AER, which is a lower rate of interest than when the bond was first opened.
43. The value of the bond as at 31 March 2016 is £559k.
44. As reported in May 2016, the Executive has liaised with Secure Trust Bank about other investments options. While at this time they are not currently offering any new products we have been placed on an alert list for when new products become available.
45. The Executive has undertaken desk research and has not been able to find a suitable alternative which pays either equal to, or more than, the bond with Secure Trust Bank.
46. In light of the desk research, the Executive proposes no change to the 120-day bond.

Recommendation:

1. To agree to transfer the investment portfolio to either Brewin Dolphin or Prospect Wealth Management.
2. To agree to delegate to the Executive the decision about which provider would best meet the investment principles.
3. To agree there should be no change to the GOsC 120-day bond investment.