Council
12 November 2015
Investments

Classification	Public
Purpose	For decision
Issue	Council approved an investment strategy in April 2011 which recommended investment in the Newton Real Return Fund. The investment strategy was last considered in early 2015 when Council agreed to make no change to the portfolio but asked the Executive to review it again later in 2015.
Recommendation	To make no changes to the GOsC investments but to revisit this subject as soon as a final position on charitable status is reached.
Financial and resourcing implications	None arising from this paper.
Equality and diversity implications	None arising from this paper.
Communications implications	None arising from this paper.
Annex	Newton Real Return Fund factsheet
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Background

1. In April 2010 Newton Investment Management was appointed to help the GOsC develop an investment strategy for investing in the stock market. Their appointment was felt necessary given the fall in bank interest rates and the rise in inflation which resulted in a lack of real return on the current investments.

2. Council approved an investment in the Real Return Fund[1] in April 2011. The investment 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 at the lower end of medium risk

    c. The portfolio needed to be diverse in order to spread 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 liquated quickly if required

    g. That Council should review the investment strategy regularly.

Discussion

Council discussion – February 2015

3. When discussing the investment portfolio in February 2015, Council members commented that the fund had performed inconsistently against its own stated philosophy. Members noted that the GOsC, when opening the portfolio, did so in order to protect its £500k investment against the effects of inflation and to that end, the portfolio has broadly achieved the key aim.

4. Council also noted that a separate £500k was invested with Secure Trust Bank in a 120-day bond and the Executive were asked to consider this as part of the next review.

Portfolio performance

5. Standard Life Wealth advise that the philosophy behind the Real Return Fund is that while it may have a target return of 1 month Libor[2] + 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.

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[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.
[2] Libor – The London Interbank Offered Rate is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks.

6. 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. At present Standard Life Wealth do not consider the risks of investing heavily in equities to be justified as debt levels continue to rise. As the Real Return Fund is unconstrained (meaning that it seeks a targeted level of return while not being required to follow market indices) the manager of the fund can position the fund as he/she considers appropriate.

7. By way of comparison, the fund performance over the last five years is as follows (see also the fund factsheet at the Annex).

Annual fund performance (December - December) %				
2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
9.29	-0.75	2.98	4.88	2.67

8. It was agreed when launching the investment that income generated is reinvested back into the fund in furtherance of the aim of maintaining the overall value of the capital.

9. GOsC invested £500,000 into the Real Return Fund in 2011. As at 30 September 2015 the total value of the fund stood at £536k. The value of the fund has reduced by 3.11% from the valuation at 30 June 2015 (£553k) as global markets produced their worst quarterly performance since 2011 due to concerns about 'Grexit', China's economic slowdown and uncertainty about US monetary policy.

Bond performance

10. GOsC invested £500,000 into a 120-day bond with Secure Trust Bank in 2011. As at 30 September 2015, the total value of the bond stood at £554k. The bond currently earns 2% AER, which is a lower rate of interest than when we first invested in the bond.

11. It is worth noting that we are not able to add new funds into the bond.

Executive position

12. The Executive had anticipated that the discussions at Council concerning the possibility of applying for charitable status would have progressed further, which would in turn have assisted decision making on future investment strategy.

13. The reason for linking these two activities is that funds exist, which may better meet the GOsC's investment strategy, but which are only available to charities. Furthermore, as Council has reflected previously, it would not be prudent to make a major change now, if better options are to become available relatively soon.

14. For that reason, while we recognise the inconsistent performance of the fund, we believe that it would be better to resolve the discussions around charitable status first, as this would provide clarity of direction. A decision about future funds could be presented to the Council shortly afterwards.

15. The Executive also propose no change to the 120-day bond with Secure Trust Bank. The bond currently earns 2% and a review of the market suggests this rate is better than existing offers available for either 1 year fixed bonds or 120-day notice accounts, which are no higher than 1.85%.

Recommendation: to make no changes to the GOsC investments but to revisit this subject as soon as a final position on charitable status is reached.