

	<b>AGENDA ITEM NO.</b>
<b>Report Cover Sheet</b>	
<b>Name of Meeting:</b>	Executive
<b>Date of Meeting:</b>	10th December 2007
<b>Report Title:</b>	Performance of WDC External Fund Manager – first half year 2007/2008
<b>Summary of report:</b>	The Executive notes the performance of Invesco for the first half year of 2007/2008 and its use of the revised limits agreed by the July 2007 Executive meeting.
<b>For further information please contact (report author);</b>	Roger Wyton, Principal Accountant ( 01926 456808 <a href="mailto:roger.wyton@warwickdc.gov.uk">roger.wyton@warwickdc.gov.uk</a> )
<b>Business Unit:</b>	Finance
<b>Would the recommended decision be contrary to the policy framework:</b>	No
<b>Would the recommended decision be contrary to the budgetary framework:</b>	No
<b>Wards of the District directly affected by this decision:</b>	All
<b>Key Decision?</b>	No
<b>Included within the Forward Plan?</b>	Yes
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No
<b>Date and name of meeting when issue was last considered and relevant minute number:</b>	23 <sup>rd</sup> July 2007 minute no. 272
<b>Background Papers:</b>	Correspondence with Sector – WDC Treasury Management Advisors.

<b>Consultation Undertaken</b>		
Below is a table of the Council's regular consultees. However not all have to be consulted on every matter and if there was no obligation to consult with a specific consultee they will be marked as n/a.		
<b>Consultees</b>	<b>Yes/ No</b>	<b>Who</b>
Other Committees	N/A	
Ward Councillors	N/A	
Portfolio Holders	Yes	Corporate Issues – Michael Coker.
Other Councillors	N/A	
Warwick District Council recognised Trades Unions	N/A	
Other Warwick District Council Service Areas	N/A	
Project partners	N/A	
Parish/Town Council	N/A	
Highways Authority	N/A	
Residents	N/A	
Citizens Panel	N/A	
Other consultees	N/A	
<b>Officer Approval</b>		
With regard to officer approval all reports must be approved by the report authors relevant director, Finance Services and Legal Services.		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Relevant Director(s)	14/11/07	Mary Hawkins
Chief Executive		
CMT	19/11/07	
Section 151 Officer	14/11/07	Mary Hawkins
Legal	No reply	Simon Best

Finance		None – report from Finance
<b>Final Decision?</b>		Yes
<b>Suggested next steps (if not final decision please set out below)</b>		

## **1. RECOMMENDATIONS**

- 1.1 That the Executive notes the performance of Invesco for the first half year of 2007/2008 and its use of the revised limits agreed by the July 2007 Executive meeting.
- 1.2 That no further action with regard to the contract be taken at present but that Invesco's performance continues to be monitored.

## **2. REASON FOR THE RECOMMENDATIONS**

- 2.1 To comply with the request made at the 23<sup>rd</sup> July Executive.

## **3. ALTERNATIVE OPTION CONSIDERED**

- 3.1 None, this report is for information and noting only.

## **4. BUDGETARY FRAMEWORK**

- 4.1 The maximisation of the Council's investment income whilst maintaining capital security is an important part of the Council's finances and helps to underpin the Council Tax. A 0.25% reduction in the average interest rate earned on the Council's investments would cost the General Fund £75,000. Invesco currently manage £5m of the Council's resources and the interest earned on this is currently estimated to be £347,100 in 2007/08 and £312,500 in 2008/09.

## **5. POLICY FRAMEWORK**

- 5.1 This report does not impact directly on any of the Council's policies and does not have any environmental impact.

## **6. BACKGROUND.**

- 6.1 A report was submitted to the 23<sup>rd</sup> July Executive advising that following poor performance, the Council had taken £5m of its £10m external cash fund back from the managers, Invesco to be managed by the in house team. However, in order to provide Invesco with a reasonable degree of flexibility to maximise the return from the remaining £5m and achieve their benchmarks, the Executive agreed to increase the limit on negotiable securities carrying rates of interest for periods of over one year ( i.e. British Government "Gilts" ) from the date of investment to 100%. It also requested a report back on Invesco's performance and that the situation be monitored by the Audit & Resources Overview and Scrutiny Committee.

## **7. 1<sup>ST</sup> QUARTER ( APRIL – JUNE ) PERFORMANCE.**

- 7.1 Invesco had a poor start to 2007/08 as they attempted to defend themselves against the rising interest rate environment. The return on the portfolio was 1.20% compared with the 7 day LIBID benchmark of 1.36%. Invesco made losses on all of their gilt sales during the quarter showing a number of misjudgements on their part and a couple of one year CD's were purchased too early as interest rates continued rising after the purchases were made. Nonetheless, Invesco still managed to cling to a middle ranking position in the league table of fund managers performance for this quarter which implies that other managers also struggled

which is not untypical in a rising interest rate environment. Fund Managers normally perform best in a falling interest rate environment by virtue of their ability to trade in Gilts and other securities where capital gains can offset lower interest returns.

## **8. 2<sup>nd</sup> QUARTER ( JULY – SEPTEMBER ) PERFORMANCE.**

- 8.1 Invesco and the other fund managers considered this a difficult quarter in which to invest due to mixed information such as the Sub Prime Mortgage problems in the US housing market and its consequential impact on the UK banking sector as reflected in the problems afflicting Northern Rock. Invesco came out of the Gilts and Supranational Bonds market at the beginning of the quarter but returned later on as the price of Gilts and Bonds started to rise due to a flight to quality arising from the problems previously described. This gave the opportunity to make capital gains to add value to the portfolio. In addition, a one year CD was purchased at an attractive rate of 6.37%. The above activity contributed to a return of 1.65% for the quarter compared with the 7 day LIBID benchmark of 1.48%, a better, when compared with the first quarter, but not outstanding performance.
- 8.2 The return for the first half year is 2.89% compared with the 7 day LIBID benchmark of 2.87% and over a three year period to the end of September 2007 the annualised figures are 4.79% and 4.97% respectively.
- 8.3 Details of the fund's performance for October has just been received and the return for October is 0.54% compared to the benchmark of 0.49% so Invesco are continuing the improvement begun in the second quarter.

## **9. GOING FORWARD.**

- 9.1 Information has recently been received from Invesco in which they forecast a portfolio return of 6.15% for 2007/08. This is their central case based on returns made to date, current interest rate expectations and their view of the outlook for the remainder of 2007/08. This rate has been used in projecting the investment interest receivable which has been included in the 2007/08 revised estimates. Invesco's worst case scenario is 5.75% and best case is 6.5%.
- 9.2 Looking forward to 2008/09, Invesco expect a central case return of 6.25%. This is based on a view that Bank Rate will fall to 5% during the year creating a favourable environment for investing in Gilts with a consequential pick up in capital gains to add value and achieve the 6.25%. As referred to in paragraph 7.1, a falling interest rate environment such as the one expected by Invesco and economists in general is one in which fund managers traditionally do well so this return does not seem excessive at this moment in time.
- 9.3 Invesco's performance will be kept under review and if it continues to be unsatisfactory then one course of action could be to terminate the Councils contract with them and either place the funds with another fund manager or bring them back in house. If such a course is contemplated in the future, the contract is determinable with immediate effect by either party by giving notice in writing.

## **10. USE OF INCREASED LIMITS**

- 10.1 The increase to 100% of the portfolio value in the amounts of Gilts and Bonds that can be held at any one time came into force on the 8<sup>th</sup> August 2007. During the remainder of the first half year up to the 30<sup>th</sup> September, the 100% was not utilised with typical end of month values of 8.18% for August and 18.57% for September.