| WARWICK DISTRICT COUNCIL | Finance and Audit Scrutiny Committee – 9th June 2009 | Agenda Item No. 6 |
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| | **Invesco Cash Management Portfolio Performance** |
| **For further information about this report please contact** | Roger Wyton – Principal Accountant<br>Telephone number :01926 456808<br>E mail: roger.wyton@warwickdc.gov.uk |
| **Service Area** | Finance |
| **Wards of the District directly affected** | All |
| **Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006** | No |
| **Date and meeting when issue was last considered and relevant minute number** | 2/12/2008 – Audit and Resources Scrutiny Committee minute no.606 |
| **Background Papers** | Quarterly reports from Invesco<br>Correspondence with Sector, WDC TM consultants<br>Previous reports to A & R Scrutiny Committee |

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| **Contrary to the policy framework:** | No |
| **Contrary to the budgetary framework:** | No |
| **Key Decision?** | No |
| **Included within the Forward Plan? (If yes include reference number)** | No |

## Officer/Councillor Approval

With regard to officer approval all reports *must* be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).

| Officer Approval | Date | Name |
|---|---|---|
| Relevant Director | 27/5/09 | Andy Jones |
| Chief Executive | N/A | N/A |
| CMT | N/A | N/A |
| Section 151 Officer | 26/5/09 | Mike Snow |
| Legal | 27/5/09 | Peter Oliver |
| Finance | 21/5/09 | Roger Wyton |
| Portfolio Holder(s) | N/A | N/A |

## Consultation Undertaken

None

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| **Final Decision?** | Yes |

## 1. SUMMARY

1.1 This report gives details of the performance of the Council's external investment portfolio , managed by Invesco, during 2008/09 and also describes the anticipated strategy to be followed by Invesco during 2009/10.

## 2. RECOMMENDATION

2.1 That the Committee notes the performance of the Council's external investment portfolio during 2008/09.

## 3. REASONS FOR THE RECOMMENDATION

3.1 This report has been submitted as a result of a request made by the Audit & Resources Scrutiny Committee at its meeting on the 2nd December 2008.

## 4. ALTERNATIVE OPTION CONSIDERED

4.1 None

## 5. BUDGETARY FRAMEWORK

5.1 Treasury Management of which the management of the Council's external investment portfolio is an important part has a potentially significant impact on the Council's budget through its ability to maximise investment income, particularly in the current low interest rate environment.

## 6. POLICY FRAMEWORK

6.1 Treasury Management has no direct impact on the Policies of the Council.

## 7. BACKGROUND

7.1 Invesco has been the Council's external investment fund manager since December 2003. Concerns over poor performance over a number of years led to the Council halving its external investment portfolio from £10m to £5m during the early part of 2008/2009 and Members requested regular reports on the performance of the remaining portfolio. These have been supplied as part of the quarterly Treasury Management reports presented to the Audit and Resources Scrutiny Committee and this additional report seeks to cover the fund's performance as a whole during 2008/09 , its performance over a three year period and also since inception as well as contrasting the 2008/09 results with the performance of other fund managers who manage portfolios of a similar nature in terms of risk. It also provides a look forward at the strategy currently envisaged by Invesco to be employed in 2009/2010.

## 8. <u>2008/09 Portfolio performance.</u>

8.1 The return on the portfolio for 2008/09 was 5.77%, net of fees payable to Invesco. The fund is benchmarked against the 7 day LIBID rate which for 2008/09 was 3.61% thus an outperformance of 2.16% was achieved. This compares very favourably with the 2007/08 performance where an outperformance of only 0.39% was achieved and reflects the opportunities that existed during 2008/09 as a result of the falling interest environment due to the "credit crunch" crisis. The outperformance was essentially down to two factors, during 2008/09 Invesco correctly called the movements in the Gilt Markets and consequently made a number of investments in Gilts and on most occasions made capital gains on the deals. In addition, having foreseen the downwards direction of interest rates they also invested at the appropriate times in high yielding C.D.'s ( Certificates of Deposit ) thus protecting the return on the fund from the falling interest rate environment.

8.2 The fund is also required to outperform over a three year rolling period the 7 day LIBID benchmark plus 10%. The relevant figures in this case are return 5.38%, benchmark 5.26% therefore this target has been achieved, largely due to this year's performance as the rate of return was behind the benchmark at the end of 2007/08.

8.3 When one looks at the rate of return since inception of the fund in December 2003 the results are return 5.51%, benchmark 5.08%, a margin of 0.43% which compares with a margin of 0.26% at the end of 2007/08.

8.4 The 2008/09 results confirm the traditional view that fund managers perform best in a falling interest rate market which was certainly the case during 2008/09 where interest rates fell to unprecedented lows. This is due to their ability to invest in products such as Gilts and C.D.'s which because they can be bought and sold and are therefore more flexible than fixed term investments provide both opportunities for capital gains and an ability to lock in high returns in advance of interest rates falling. As a number of the high interest rate C.D's mature during the early part of 2009/10 It remains to be seen whether Invesco can maintain its improved performance during 2009/10 where interest rates are expected to be largely static throughout the year at a very low level.

## 9. **Comparison with other fund managers.**

9.1 Information has now been received from Sector, our Treasury consultants which compares Invesco's performance during 2008/09 with the other fund managers in the Local Authority cash management market. This shows that Invesco were placed third best out eight in terms of return. One manager achieved nearly 7.4% but this was achieved at higher risk to the capital within the portfolio. Another manager outperformed Invesco by a small margin whilst the remaining managers achieved returns varying from around 3.90% to around 5.3% all with slightly less risk appetite than Invesco but not significantly so. This illustrates that they were perhaps more cautious in their use of Gilts than Invesco hence the lower returns as they will have used investment vehicles which were affected by the dramatic decline in the Bank Rate. Invesco's performance when compared with the other fund managers is therefore considered satisfactory and in line with the risk parameters set for the management of our portfolio.

## 10. **2009/10 investment strategy.**

10.1 The Council's investment interest budget for 2009/10 allows for a return on the Invesco portfolio of 2.25% which is Invesco's central case in a possible range of 1.5% to 3.25% and at this point in time Invesco is not considering changing this forecast. At present the risks are skewed towards the lower end of the forecast i.e. 1.5% largely due to the fact that Bank Rate is lower than when the projections were first made and economic developments since now suggest it is likely to remain at

0.50% through 2009/10. However, due to the uncertainty surrounding the UK economy this could move materially as the year progresses.

10.2 At present, Invesco is still of the view that there is value in exposure to Gilts as a key contributor to the portfolio's performance in 2009/10. If it becomes apparent that Gilts are not the asset class to be invested then Invesco will review and change their strategy.

10.3 The rationale behind Invesco's view on Gilts is based on two key drivers a) the concern over the increased supply of Gilts and the potential implications for the UK AAA sovereign rating which if dropped to say AA+ would make borrowing more expensive for the UK Government however Invesco feel that this has been already priced into the market and b) there has been a switch from safe haven assets such as Gilts into equities based on a view that the economy will recover quicker than anticipated. Invesco feel that this view is misplaced as they expect any recovery to be weak and protracted and they foresee a switch back into Gilts which will cause yields to fall and prices to rise which will lead to opportunities for capital gains.