

**TREASURY MANAGEMENT
INVESTMENT PERFORMANCE
(Report by the Head of Financial Services)**

1. INTRODUCTION

- 1.1. This report comments on the performance of the fund from April to December 2003. At 31 December 2003 the Fund Managers were managing £78m of the Council's funds: £29m with Investec, £29m with Alliance Capital and £20m with CDCM plus the interest that had accumulated in the year to December 2003.

2. PERFORMANCE SUMMARY

- 2.1. The quarter ending December 2003 was a difficult period for the Fund Managers that invest in gilts. However, Alliance Capital's strategy of investing in a variety of bonds (corporate and Government), proved to be the right one and they made a satisfactory return for the quarter. Investec, on the other hand, continued their run of disappointing results, because their strategy was based on a view of the gilt market that proved to be wrong.
- 2.2. CDCM continued their excellent performance in the third quarter. They made decisions, especially about forward deals (where they agree an investment to take place on a specific date in the future), that locked in returns of over 5%.
- 2.3. As a result of the October meeting of the Capital Receipts Advisory Group it was decided that Alliance Capital and Investec should each transfer £5m of their portfolio to CDCM. This transfer took place in November 2003 and CDCM were thus able to invest at a time when longer-term rates were at their peak.
- 2.4. The Council appointed Fund Managers with new mandates in July 2000. By 30 June 2003, after three years, Investec had produced the best cumulative performance of the three Managers. Six months later Alliance Capital has taken the prime position for performance since the start of the new arrangements.

PERFORMANCE FOR THE QUARTER OCTOBER 2003 – DECEMBER 2003					
	Performance %	HDC Benchmark %	Industry Average %	Variation from	
				HDC Benchmark %	Industry average %
Investec	0.51	0.68*	0.67	-0.17	-0.16
Alliance	0.84	0.68*	0.67	+0.16	+0.17
CDCM	1.07	0.96**	0.67	+0.11	+0.40

CUMULATIVE PERFORMANCE SINCE APRIL 2003					
	Performance %	HDC Benchmark %	Industry Average %	Variation from	
				HDC Benchmark %	Industry average %
Investec	1.89	2.12*	2.11	-0.23	-0.22
Alliance	2.45	2.12*	2.11	+0.33	+0.34
CDCM	3.13	2.69**	2.11	+0.44	+1.02

CUMULATIVE PERFORMANCE SINCE JULY 2000					
	Performance %	HDC Benchmark %	Industry Average %	Variation from	
				HDC Benchmark %	Industry average %
Investec	18.85	18.73	17.38	+0.11	+1.46
Alliance #	19.00	18.18	16.79	+0.82	+2.21
CDCM	18.81	16.61	17.38	+2.19	+1.42

The mandate with Alliance Capital started in August 2000

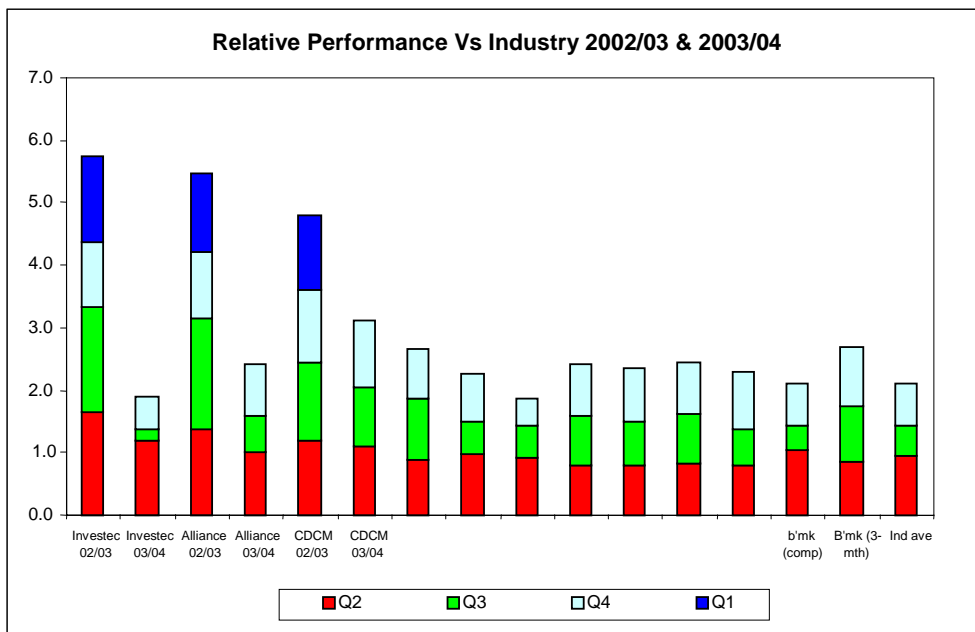
* Composite of 60% Merrill Lynch 3 month LIBID (London Inter-Bank Bid Rate) and 40% ML 0-5yr Gilt Index.

** 3 month LIBID

3. PERFORMANCE V. INDUSTRY

3.1 The graph below shows that CDCM were the best performing Fund Manager for the nine months to December 2003, whilst Investec were trailing with the worst results.

3.2 The performance for 2002/3 is also shown to highlight two aspects; firstly that returns were considerably better last year, and secondly that the relative performance of the Fund Managers has changed between 2002/3 and this year.



4. PERFORMANCE AGAINST BUDGET

- 4.1 The transfer of funds to CDCM has improved their return, but the overall position is affected to a greater degree by the continuing poor performance of Investec. It is expected that the shortfall on the budget for investment interest will be £280k. This is an increase of £50k on the £230k shortfall reported to Cabinet in December 2003.

5. RECOMMENDATIONS

- 5.1 It is recommended that Cabinet note this report.

BACKGROUND PAPERS

Working papers in Financial Services

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