

**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 2004. At 31 December 2004 the Fund Managers were managing £78m of the Council's funds: £29m with Investec, £29m with Alliance Capital and £20m with CDCM.

2. PERFORMANCE SUMMARY

- 2.1. Annex A provides comparative tables showing investment returns over various periods.

2.2. October to December 2004

Investec and Alliance took a cautious approach to the structure of their portfolios during this quarter due to the general uncertainties about economies, currencies and interest rates around the world. This has resulted in a modest underperformance against the benchmark for the third quarter. CDCM continued to perform above their benchmark due to the high yields still being achieved on long-term deposits negotiated in the past. All our Fund Managers were above the industry average.

2.2. April to December 2004

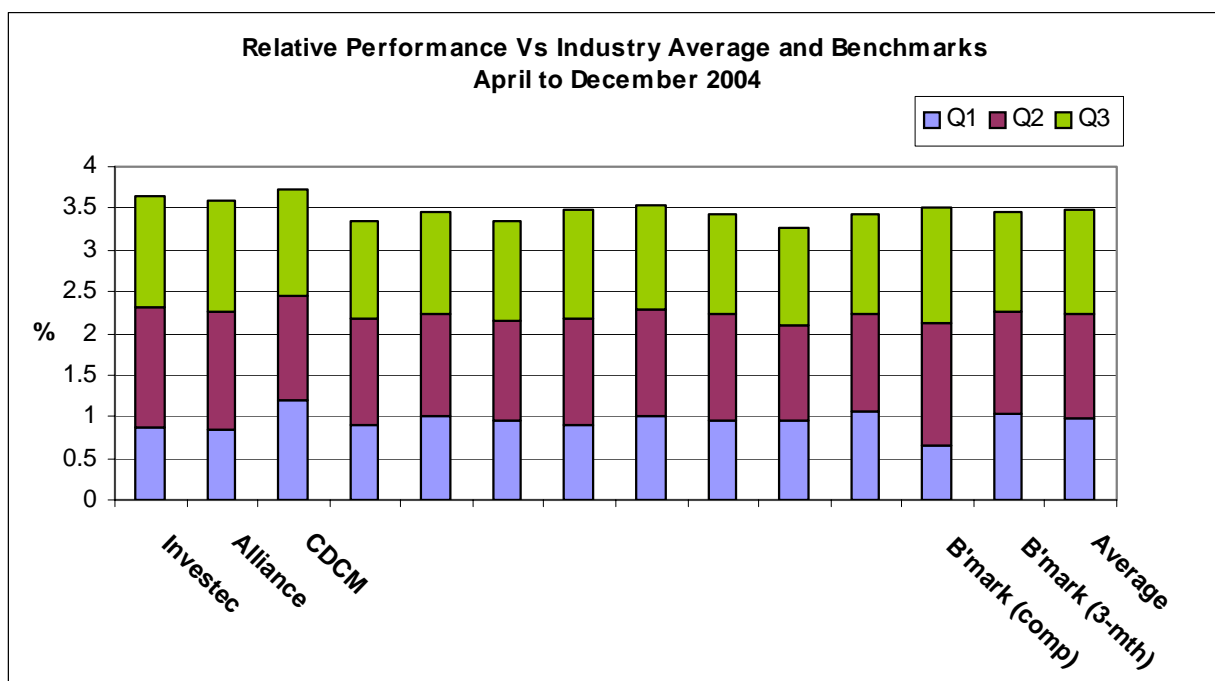
For the period April to December 2004 all three Fund Managers have exceeded both the benchmark and the industry average. CDCM have produced the best actual return but Investec are not far behind

2.3. Since start of new mandates (July/August 2000)

The Authority appointed the three Fund Managers and gave them new mandates over four years ago. In that time they have all exceeded their benchmarks and the industry average. Overall returns are very similar but CDCM continues to be the best performer which is impressive given their narrower range of investment types.

3. PERFORMANCE V. INDUSTRY

- 3.1 Most of the Fund Managers in the industry will have a portfolio that includes gilts and cash. The graph below shows that each of our Managers beat the industry average.



4. PERFORMANCE AGAINST BUDGET

4.1 The performance of the funds for the period April to December 2004, combined with the fund managers' projections for the remainder of the year, indicate that investment interest will exceed the budget by an estimated £600k. This is due to better returns and funds not having to be returned as soon as expected.

5. RECOMMENDATIONS

5.1 It is recommended that Cabinet note this report.

BACKGROUND PAPERS

Working papers in Financial Services

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ANNEX A

| PERFORMANCE FOR THE QUARTER OCTOBER 2004 – DECEMBER 2004 | | | | | |
|---|------------------|-----------------------|--------------------------|--------------------|-----------------------|
| | Performance % | HDC Benchmark % | Industry Average % | Variation from | |
| | | | | HDC Benchmark % | Industry average % |
| Investec | 1.35 | 1.42* | 1.25 | -0.07 | +0.10 |
| Alliance | 1.33 | 1.42* | 1.25 | -0.09 | +0.08 |
| CDCM | 1.28 | 1.2** | 1.25 | +0.08 | +0.03 |

| PERFORMANCE FOR THE YEAR APRIL 2004 – DECEMBER 2004 | | | | | |
|--|------------------|-----------------------|--------------------------|--------------------|-----------------------|
| | Performance % | HDC Benchmark % | Industry Average % | Variation from | |
| | | | | HDC Benchmark % | Industry average % |
| Investec | 3.69 | 3.55* | 3.45 | +0.14 | +0.24 |
| Alliance | 3.63 | 3.55* | 3.45 | +0.08 | +0.18 |
| CDCM | 3.72 | 3.51** | 3.45 | +0.21 | +0.27 |

| CUMULATIVE PERFORMANCE SINCE JULY 2000 | | | | | |
|---|------------------|-----------------------|--------------------------|--------------------|-----------------------|
| | Performance % | HDC Benchmark % | Industry Average % | Variation from | |
| | | | | HDC Benchmark % | Industry average % |
| Investec | 24.40 | 24.14 | 22.55 | +0.26 | +1.85 |
| Alliance # | 24.49 | 23.56 | 21.93 | +0.93 | +2.56 |
| CDCM | 24.58 | 21.84 | 22.55 | +2.74 | +2.03 |

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