

**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 January to March 2005. At 1st January 2005 the Fund Managers were managing £78m of the Council's funds: £29m with Investec, £29m with Alliance Capital and £20m with CDCM. However in March, Alliance Capital and Investec each returned £2.5m to meet the cash flow requirements of the Council.

2. PERFORMANCE SUMMARY

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

2.2. January to March 2005

The end of the financial year was dull for local authority fund managers. The expectation that interest rates had reached the top in this current economic cycle but were not expected to fall in the medium term, meant that there was little room for activity that would lock in returns for the funds of more than 5%. This has resulted in a modest outperformance against the benchmark for the fourth quarter, although only CDCM beat the industry average.

2.2. April 2004 to March 2005

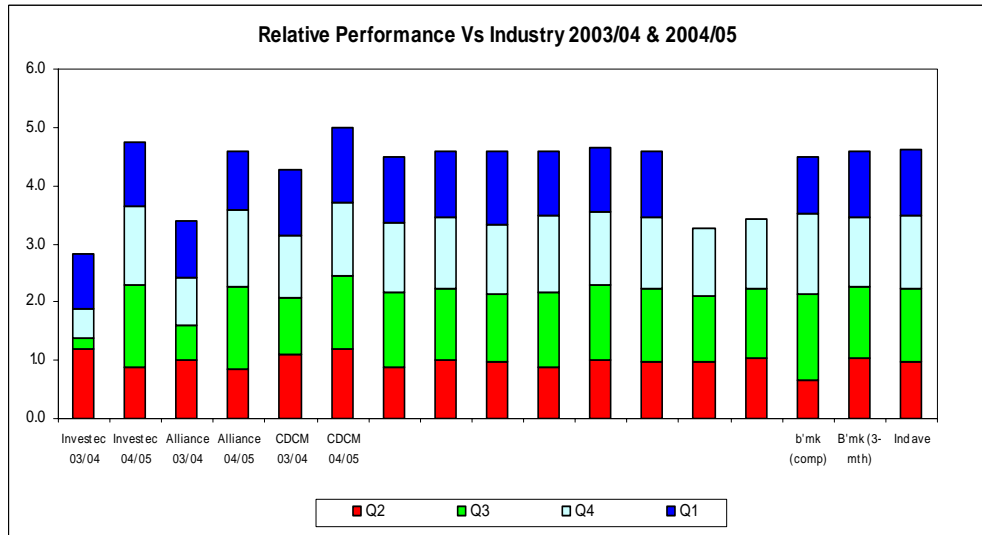
The Council's three managers delivered mixed performances for the year as a whole. While none of them were spectacularly good, they all beat their respective benchmarks, which, in a difficult market environment could be considered a satisfactory result. Alliance Capital matched the industry average, whilst the other two managers exceeded it.

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

The Authority appointed the three Fund Managers and gave them new mandates nearly five 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 they all performed reasonably well against the industry average.



4. PERFORMANCE AGAINST BUDGET

4.1 The investment interest for the year was £745k above the budget. This is partly due to better returns and partly due to actual spending lagging behind budget assumptions, so that the return of £5m from the managers was less than had been assumed in the budget.

5. RECOMMENDATIONS

5.1 It is recommended that Cabinet note this report.

BACKGROUND PAPERS

Working papers in Financial Services

CONTACT OFFICER

Steve Couper – Head of Financial Services Tel. 01480 388103

PERFORMANCE FOR THE QUARTER JANUARY TO MARCH 2005					
	Performance %	HDC Benchmark %	Industry Average %	Variation from	
				HDC Benchmark %	Industry average %
Investec	1.09	0.96*	1.12	+0.13	-0.03
Alliance	1.01	0.96*	1.12	+0.05	-0.11
CDCM	1.27	1.14**	1.12	+0.13	+0.15

PERFORMANCE FOR THE YEAR APRIL 2004 – MARCH 2005					
	Performance %	HDC Benchmark %	Industry Average %	Variation from	
				HDC Benchmark %	Industry average %
Investec	4.82	4.55*	4.68	+0.27	+0.14
Alliance	4.68	4.55*	4.68	+0.13	0.00
CDCM	4.99	4.59**	4.68	+0.40	+0.31

CUMULATIVE PERFORMANCE SINCE JULY 2000					
	Performance %	HDC Benchmark %	Industry Average %	Variation from	
				HDC Benchmark %	Industry average %
Investec	25.76	25.33	24.01	+0.43	+1.75
Alliance #	25.75	24.74	23.38	+1.01	+2.37
CDCM	26.10	23.18	24.01	+2.92	+2.09

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