

CABINET

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 June 2006. At the beginning of the year the Fund Managers managed £73m of the Council's funds: £26.5m with Investec, £26.5m with Alliance Capital and £20m with CDCM. However in April 2006 £5m of funds were returned by both Investec and Alliance Capital to meet the cash flow requirements of the Council.
- 1.2. The Monetary Policy Committee held the base rate at 4.5% from August 2005 until August 2006 when it was increased to 4.75%.

2. PERFORMANCE SUMMARY

- 2.1 Annex A provides comparative tables showing investment returns over various periods.
- 2.2 **April to June 2006**

The first quarter of the year did not get off to a good start for many fund managers due to the weakness in the market for gilts. The returns for Investec and Alliance Capital were disappointing; Alliance Capital exceeded the benchmark, as a result of investing in corporate bonds and floating rate notes, but the benchmark was low so that the real returns were poor; Investec's return did not reach the benchmark or the industry average. CDCM continues to outperform the other fund managers (as it did in 2005/06) and during the quarter made new investments at rates over 5%.
- 2.3 **July to August 2006**

Investec's performance improved in July and August, equalling the benchmark in July and beating it in August. Alliance Capital's returns have continued to be steady but uninspiring. They were below the benchmark in July and above it in August. As CDCM's investments are at fixed rates for up to 5 years, their returns do not significantly fluctuate from one month to another.
- 2.4 **Since start of new mandates (July/August 2000)**

The Authority appointed the three Fund Managers and gave them new mandates in 2000. It has always been accepted that our mandates and choice of managers will lead to fluctuations but that in the longer run higher overall returns should be achieved. Since 2000 this is still the case as they are all exceeding their benchmarks, the industry average and the 7 day rate. Overall returns are very similar but as at June 2006, CDCM was the best performing of the three Managers.

3. PERFORMANCE AGAINST BUDGET IN 2006/7

- 3.1 The latest estimated outturn of investment interest is £260k more than in the budget mainly due to the impact of the 2005/06 outturn and the beneficial impact on returns of the increase in the base rate.
- 3.2 The Capital Receipts Advisory Group will be discussing the poor results in the first three months of the year with the relevant fund managers at the next monitoring meeting in November.

4. RECOMMENDATIONS

- 4.1 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 APRIL 2006 – JUNE 2006					
	Performance %	Benchmark %	Variation from benchmark	Industry average %	Variation from average %
Investec	0.76	0.84*	-0.08	0.87	-0.11
Alliance	0.98	0.84*	+0.14	0.87	+0.11
CDCM	1.26	1.16**	+0.10	0.87	+0.39

CUMULATIVE PERFORMANCE SINCE JULY 2000					
	Performance %	Benchmark %	Variation from benchmark	Industry average %	Variation from average %
Investec	32.7	32.4	+0.3	30.8	+1.9
Alliance #	33.2	31.8	+1.4	30.2	+3.0
CDCM	34.1	30.4	+3.7	30.8	+3.3

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