

**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 October to December 2006. The Fund Managers are managing £63m of the Council's funds: £21.5m with Investec, £21.5m with Alliance Bernstein and £20m with CDCM.
- 1.2. The Monetary Policy Committee increased the base rate to 5% on 9th November 2006 and again in January 2007 to 5.25%. This latter increase surprised the markets and commentators; only 1 out of 50 economists surveyed by *The Times* predicted the January increase.

2. PERFORMANCE SUMMARY

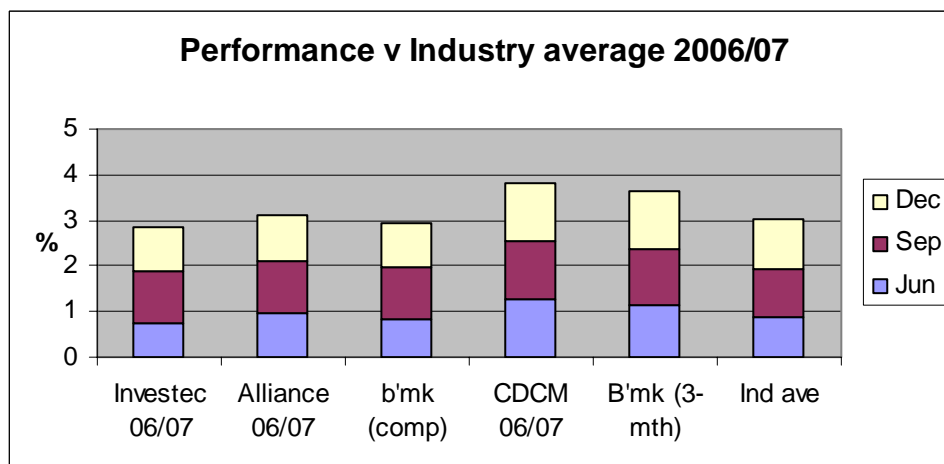
- 2.1 Annex A provides comparative tables showing investment returns over various periods.

2.2 October to December 2006

The performance of Alliance Bernstein and Investec was disappointing in real terms in the third quarter. The behaviour of the prices of gilts and CD's in this quarter presented an extremely difficult environment for Fund Managers to operate in, and had a detrimental impact on quarterly performances. However they both achieved the benchmark but, as in the first half year, the benchmark was below the rate for 7 day cash, and both Fund Managers underperformed cash. CDCM's performance was much better than the other fund managers, and outperformed 7 day cash by 0.04% but fell slightly below the benchmark by just 0.01%.

2.3 April to December 2006

CDCM continues to outperform Investec and Alliance Bernstein in real terms. Investec has not achieved the benchmark or the industry average for the first 9 months (see graph below) but Alliance Bernstein has marginally exceeded both the benchmark and the industry average.



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. CDCM is the best performing of the three Managers.

3. PERFORMANCE AGAINST BUDGET IN 2006/07

- 3.1** The last budgetary control report indicated that the budget for interest would be exceeded by £116k and this is still the case with improved cash flow and spending deferrals compensate for lower interest rates.

4. TREASURY MANAGEMENT STRATEGY

- 4.1** The Strategy considered by Cabinet on 1 February highlighted the intention of withdrawing our funds from Alliance Bernstein over the next few months.

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

ANNEX A

PERFORMANCE FOR THE QUARTER OCTOBER 2006 – DECEMBER 2006					
	Performance %	Benchmark %	Variation from benchmark	Industry average %	Variation from average %
Investec	0.96	0.95*	+0.01	1.06	-0.10
Alliance	1.03	0.95*	+0.08	1.06	-0.03
CDCM	1.28	1.29**	-0.01	1.06	+0.22

PERFORMANCE FOR THE PERIOD APRIL 2006 – DECEMBER 2006					
	Performance %	Benchmark %	Variation from benchmark	Industry average %	Variation from average %
Investec	2.87	2.96*	-0.09	3.04	-0.17
Alliance	3.27	2.96*	+0.31	3.04	+0.23
CDCM	3.82	3.66**	+0.16	3.04	+0.78

CUMULATIVE PERFORMANCE SINCE JULY 2000					
	Performance %	Benchmark %	Variation from benchmark	Industry average %	Variation from average %
Investec	34.2	33.9	+0.3	32.2	+2.0
Alliance #	34.7	33.3	+1.4	31.6	+3.1
CDCM	35.8	32.0	+3.8	32.2	+3.6

The mandate with Alliance Bernstein 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