

**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 August 2007 and the changes made to the Fund Managers in September 2007. At the beginning of the year the Fund Managers managed £53m of the Council's funds: £21.5m with Investec, and £31.5m with CDCM.

2. PERFORMANCE SUMMARY

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

2.2 April to June 2007

The interest on investments is the increase in the total value of the fund over the period in question. In the first quarter of the year the capital value of the assets held by Investec fell due to market changes which thus reduced the interest for the quarter. Overall they were below the benchmark, 7-day rate and industry average.

CDCM achieved a better return in real terms, but were behind their benchmark. This is because the majority of their funds are invested in the medium term and these rates, which were beneficial at the time, are now below current market rates. However taken in a longer time frame, CDCM has had a very satisfactory track record. During the quarter they exceeded the industry average but were below the 7 day rate.

2.3 July to August 2007

Investec's performance was above the benchmark in July but below in August due to the volatility following the problems in the USA sub-prime mortgage market. CDCM's investments continued to be below their benchmark and the 7 day rate for the reasons explained above.

3. INVESTEC'S PERFORMANCE

- 3.1 The performance of the fund managed by Investec has been a concern for some months now, particularly in the light of the interest rates available for time deposits, and it did not improve in the first quarter of this year. The Capital Receipts Advisory Group met on 30 July 2007 with Chris Anthony from Butlers, our Treasury Management advisers. With market rates being above 6% and bearing in mind that the financial plan shows that the Authority will need the funds in 1 to 2 years, it was considered to be the right time to bring the funds managed by Investec back in-house.
- 3.2 Investec accordingly returned £21.5m on 3 September 2007 and these funds have been invested until March 2008 at rates of between 6.24% and 6.3%.

3.3 The Treasury Management Strategy permits a maximum investment of £2.5m with any counterparty but allows the Head of Financial Services to make changes that are deemed to be in the Council's interests but which do not increase the Council's risks more than marginally. Chris Anthony advised that the increase in risk of raising this limit to £5m, as long as limited to counterparties with high long term credit ratings and avoiding any which CDCM already had funds with, was negligible. The Head of Financial Services has therefore, with the support of CRAG, made 3 investments of £5M, for up to 18 months, to achieve slightly higher interest rates.

4. PERFORMANCE AGAINST BUDGET IN 2007/8

4.1 The latest forecast outturn is additional interest of £120k on the budget of £2,587k.

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 APRIL 2007 – JUNE 2007					
	Performance %	Benchmark %	Variation from benchmark	Industry average %	Variation from average %
Investec	0.92	0.93 *	-0.01	1.16	-0.24
CDCM	1.28	1.42 **	-0.14	1.16	+0.12

CUMULATIVE PERFORMANCE SINCE JULY 2000					
	Performance %	Benchmark %	Variation from benchmark	Industry average %	Variation from average %
Investec	38.22	37.87	0.35	36.83	1.39
CDCM	40.94	37.26	3.68	36.83	4.11

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

** 3 month LIBID