

Finance and Resources Committee

10.00am, Thursday 28 November 2013

Annual Investment Monitoring – Charitable Trusts

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Executive summary

Annual Investment Monitoring – Charitable Trusts

Summary

The purpose of the report is to provide an update on the investment performance and the asset allocation of the investments held by the Charitable Trusts administered by the City of Edinburgh Council at 30 June 2013.

The Charitable Trusts' investments are held in three pooled funds with a target allocation of 37.5% in UK equities, 37.5% overseas equities and 25% in fixed interest. They were valued at £2.9m at 30 June 2013.

Over the twelve months to 30 June 2013, the Charitable Trusts' investments returned 14.1% compared with the benchmark return of 14.0%.

The Charitable Trusts fixed income investments are held in the Chariguard Fixed Interest Fund, which has intimated its intention to close. As a result, the Finance and Resources Committee is asked to delegate authority to the Director of Corporate Governance to review and implement new investment arrangements.

Recommendations

That the Finance and Resources Committee:

- 1) notes the performance and asset allocation of the Charitable Trusts at 30 June 2013;
- 2) notes that the manager is planning to liquidate the Chariguard Fixed Interest Fund; and
- 3) delegates authority to review and implement new investment arrangements to the Director of Corporate Governance.

Measures of success

The benchmark for measuring investment performance is the investment return of the target asset allocation.

Financial impact

This report details the investment performance of the Charitable Trusts. The investment performance is the primary determinant of the Charitable Trusts' ability to fulfil their charitable objectives in both the short and long term.

Equalities impact

There are no equalities implications as a result of this report.

Sustainability impact

There are no sustainability implications as a result of this report.

Consultation and engagement

None.

Background reading / external references

None.

Annual Investment Monitoring – Charitable Trusts

1. Background

- 1.1 The purpose of the report is to provide an update on the investment performance and the asset allocation of the investments held by the Charitable Trusts administered by the City of Edinburgh Council at 30 June 2013.
- 1.2 Following a restructuring of the Charitable Trusts, funds were invested with RCM, a division of Allianz Global Investors, in July 2011 in the case of the non-poverty trusts, and in January 2013 in the case of the Edinburgh Education Trust.

2. Main report

Investment Performance to 30 June 2013

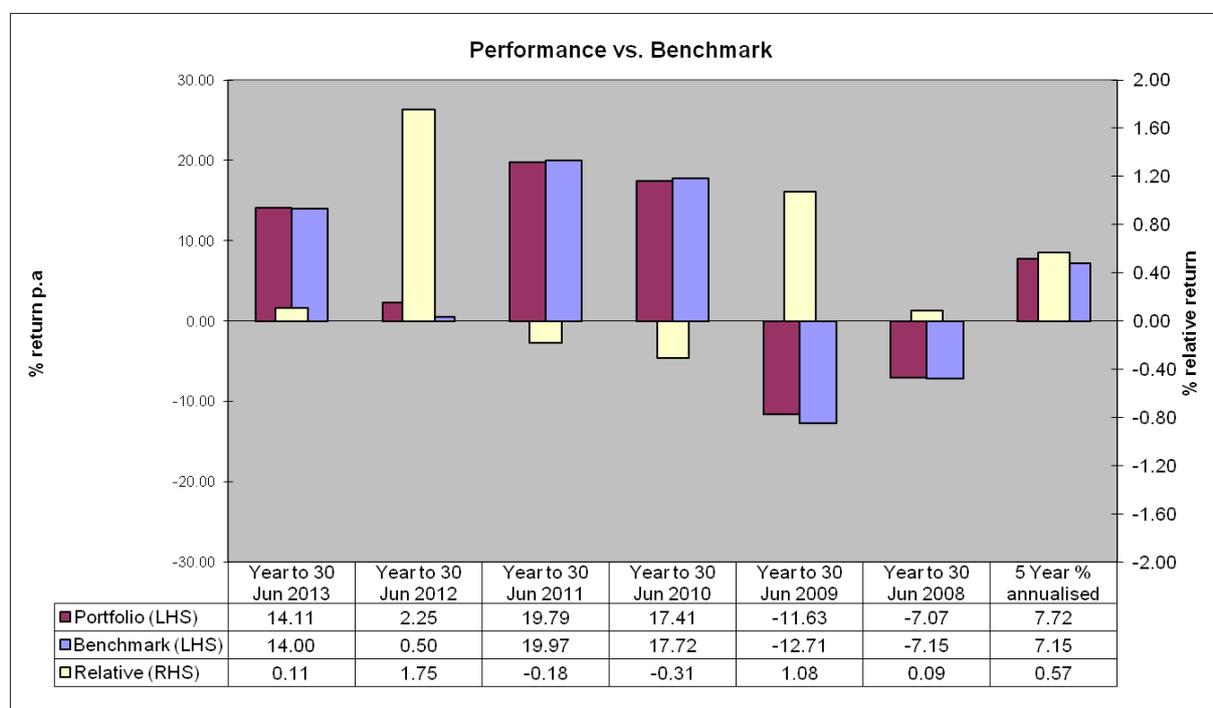
- 2.1 The investment values of the various charitable trusts at 30 June 2013 are shown in the table below.

| Trust | Value |
|--|----------------------|
| Miss Jean Fletcher Watson Bequest | £801,333.64 |
| Royal Scots (The Royal Regiment) Monument Trust Fund | £27,201.94 |
| Nelson Halls Trust | £179,850.37 |
| Lauriston Castle Trust | £35,803.50 |
| Surplus Fire Fund | £1,153,822.33 |
| Edinburgh Education Trust | £676,842.65 |
| Total | £2,874,854.43 |

- 2.2 The Charitable Trusts invest in three pooled funds run by RCM (UK) Limited. The three funds are passive investment vehicles meaning that they aim to provide the same return as their respective benchmarks.

| Fund | Value | Actual | Target |
|---------------------------|---------------|--------|--------|
| Chariguard UK Equity | £1,078,821.53 | 37.5% | 37.5% |
| Chariguard Overseas Fund | £1,103,056.39 | 38.4% | 37.5% |
| Chariguard Fixed Interest | £692,976.51 | 24.1% | 25.0% |
| Total | £2,874,854.43 | 100.0% | 100.0% |

- 2.3 The target allocations, shown in the table above, were agreed by the Pensions and Trusts Committee in June 2011 to provide an appropriate balance between income generation and capital growth.
- 2.4 The actual asset allocation and the target allocation are very similar. The small overweight position in equities and small underweight position in fixed interest reflect the better performance of equities since inception of the strategy. Given the costs associated with adjusting allocations, no action will be taken to rebalance the weightings.
- 2.5 At the time of the last report in June 2012, 30 education related trusts were invested in cash pending transfer into the Edinburgh Education Trust. That process was completed on the 22nd January 2013 with the investment of £575,917 into the Edinburgh Education Trust.
- 2.6 The chart below shows the estimated performance to 30 June 2013 for those charitable trusts that were transferred to RCM in July 2011.



- 2.7 Prior to the restructuring in July 2011, the Charitable Trusts' performance reflects the weighted average return of the internally managed equity and bond portfolios; following the restructuring, performance reflects the weighted average performance of the three RCM funds.

- 2.8 Prior to the restructuring in July 2011, the benchmark performance reflects the weighted average of the equity (FTSE 350) and bond (50% Government All Stocks and 50% Index-Linked All Stocks index) benchmarks; following the restructuring the benchmark performance reflects the target asset allocation of 37.5% UK Equities (FTSE All Share), 37.5% Overseas Equities (FTSE World ex-UK) and 25% Fixed Interest (FTSE Gilts All Stocks).
- 2.9 Over the last 12 months, the equity investments performed well, outperforming fixed interest investments resulting in a slightly underweight position in fixed interest and a slightly overweight position in overseas equities. The Fund returned +14.1% over the year to 30 June 2013, which was slightly ahead of the benchmark return of 14.0%.
- 2.10 Over the five years to 30 June 2013, the Charitable Trusts' investments delivered a return of 7.7% per annum, which was ahead of the benchmark return of 7.2% per annum.
- 2.11 The performance and asset allocation of the charitable trusts is monitored annually.

Chariguard Fixed Interest Fund

- 2.12 On 18 September 2013, Allianz Global Investors wrote to the City of Edinburgh Council informing that it would be liquidating the Chariguard Fixed Interest Fund. The intention is that holders of the income units will receive the capital repayment on 2 January 2014 while the income distribution will be paid on 28 February 2014.

Review of Investment Arrangements

- 2.13 The closure of the Chariguard Fixed Interest Fund means that the Charitable Trusts will be forced to find an alternative investment vehicle for the proceeds of the liquidation.
- 2.14 Committee is asked to delegate authority to the Director of Corporate Governance to review and implement new investment arrangements.
- 2.15 The review will take place before the Chariguard Fixed Interest Fund makes its capital repayment. In the event that it is not possible to identify and put in place an ideal solution before the capital is repaid, the proceeds will be held in cash pending reinvestment.
- 2.16 The Director of Corporate Governance will report the new investment arrangements to Committee in early 2014.

Conclusions

- 2.17 The absolute performance of Charitable Trusts' investments over the 12 months to 30 June 2013 was positive with a return of +14.1%, which was slightly ahead of the benchmark and consistent with the manager's mandate.
- 2.18 The asset allocation of the Charitable Trusts' investments is close to the target allocation.

- 2.19 The investment vehicle used by the Charitable Trusts to invest in fixed interest assets is to be wound up.
- 2.20 A review of the investment arrangements is necessary as a result of the pending closure of this investment vehicle.

3. Recommendations

- 3.1 That the Finance and Resources Committee:
 - 3.1.1 notes the performance and asset allocation of the Charitable Trusts at 30 June 2013;
 - 3.1.2 notes that the manager is planning to liquidate the Chariguard Fixed Interest Fund; and
 - 3.1.3 delegates authority to review and implement new investment arrangements to the Director of Corporate Governance.

Alastair D Maclean

Director of Corporate Governance

Links

Coalition pledges

Council outcomes CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

Single Outcome Agreement

Appendices None