Minutes of the Investment Sub Committee - Thursday 23 October 2014

Attendees:
Mr Gurpreet Dehal (Chairman)
Professor Paul Layzell
Mr Nick Perryman
Mr Graeme Robinson
Mrs Jenny Febry
Professor Katie Normington (Observer)

In attendance:
Mr Roger Curtis, Aberdeen Asset Management
Ms Fiona Gillespie, Aberdeen Asset Management
Ms Hilary Meades, Newton Investment Management
Mr Paul Mitchell, Newton Investment Management

1. APOLOGIES FOR ABSENCE

Apologies were received from Mr Jeremy McIlroy

2. MEMBERSHIP

It was noted that Paul Blagbrough has completed his term on the Investment Sub-Committee; the Chairman thanked him for his contribution over the years. The Chairman welcomed Nick Perryman to his first meeting.

Prof Katie Normington was welcomed to the meeting as an observer.

3. MINUTES

To minutes of the last meeting held on 10 July 2014 were APPROVED. (ISC/14/32-ISC/14/44).

4. MATTERS ARISING FROM THE MINUTES

There were no matters arising from the minutes which were not covered elsewhere on the agenda

GENERAL MATTERS

5. NEW INVESTMENT MANAGEMENT (NIM) – CHANGES TO INVESTMENT ARRANGEMENTS

It was noted that the transfer of the assets into the Charities Growth and Income Fund was completed by 31 July 2014 and the investment in the Newton Real Return Fund was retained.
6. VALUATION AND PERFORMANCE

It was noted that the RPI adjusted current protected value was £36,960K and the market value was market value was £34,438K at 10 October 2014.

7. AAM INVESTMENT REVIEW OF NON-FEF FUNDS AT 30 JUNE 2014

It was noted that for the quarter ending 30 June 2014 the General Endowment Fund had over performed the benchmark by 0.05%, however, the 12 month’s performance was an under performance of -2.15%.

It was noted that for the quarter ending 30 June 2014 the Hilda Martindale Fund had over performed the benchmark by 0.06%, however, the 12 month’s performance was an under performance of -2.21%.

It was noted that for the quarter ending 30 June 2014 the Scholarship Endowment Fund had over performed the benchmark by 0.03%, however, the 12 month’s performance was an under performance of -2.25%.

8. WM COMPANY PROGRESS REPORT AS AT 30 SEPTEMBER 2014

It was noted that the total combined FEF underperformed against the strategic benchmark by -0.7% for the quarter and -0.2% for the 12 months to 30 September 2014. This was due to being underweight in asset classes that performed well over the last 12 months, namely, overseas equities and UK bonds.

It was noted that Aberdeen FEF underperformed the strategic benchmark by -1.1% for the quarter and -0.8% for the 12 months to 30 September 2014.

It was noted that Newton FEF underperformed the strategic benchmark by -0.5% for the quarter and over performed the strategic benchmark by 0.3% for the 12 months to 30 September 2014.

FUND MANAGERS’ PRESENTATION

9. ABERDEEN ASSET MANAGEMENT (AAM)

Received a presentation on the performance of the FEF for the quarter to 30 September 2014 where the fund underperformed the benchmark by -0.8% which in part was caused by being underweight in US equities which performed well. AAM reiterated their investment approach focuses on being invested in the most appropriate companies rather than specific sector or country allocations – and this approach is applied to the funds in which Royal Holloway is invested. During September 2014 there was a reduction in the proportion of the fund invested in UK equities and an increase in the investment in property.

Discussed the investment objective of 8.5% total return with an income target of 3 – 4% per annum; in their opinion this is a challenging target given the current economic conditions. The Chairman asked AAM what would, in their view, be an achievable return. AAM indicated that RPI + 4% to 4.5% total return with an annual income target of 3% would be a realistic target.

Discussed the portfolio optimisation exercise that was performed in November 2013 which showed the possible return and the associated risk when the different asset classes were
increased or decreased. This was based on the current investment target. AAM was requested to perform this exercise again based on the objective of RPI + 4% total return with an annual target of 3% income.

The General Endowment Fund, Hilda Martindale Fund and the Scholarship Endowment Fund for the quarter dated 30 September 2014 all underperformed the benchmark by -1.19%, -1.22% and -1.27% respectively.

10. NEWTON INVESTMENT MANAGEMENT

Received a presentation on the performance of the FEF for the quarter to 30 September 2014 where the fund over performed the benchmark by 0.4%. The main focus of the presentation was on the performance of the Growth & Income (G & I) Fund for Charities where the target income per annum minimum yield is 3%. The yield to 30 September 2014 was 3.38%. The current asset allocation is 83% equities, 16% Bonds and 1% cash. The G & I Fund remains overweight in equities with the focus on companies with strong cash flow and resilient earnings.

The Real Return Fund’s target objective is one month’s LIBOR + 4% p.a.; the annualised results to 30th September 2014 gross of fees is 0.2% above the benchmark of 4.4%. The Real Return Fund’s current allocation is 63.3% equities, 15.5% bonds, 13.7% cash and the balance of 7.5% being commodities and derivatives, convertibles and infrastructure.

Newton was of the opinion, also, that 8.5% total return over the next five years was an unachievable target with lower growth and inflation expectations in the medium term.

OTHER MATTERS

11. TENDER FOR NEW FUND MANAGER TO REPLACE NEWTON INVESTMENT MANAGER

Discussed the internal process regarding the proposal of a new target objective for the fund managers and agreed that the Committee would make a recommendation to the Finance Committee who would in turn make a recommendation to the FEF Trustees.

Discussed and agreed to recommend to the Finance Committee that the revised investment objective should be RPI + 4% for the total return over 3 – 5 year and an annual income of 3% before fees. The revised investment objective should be applied to Aberdeen Asset Management as well as the new fund manager to allow for ongoing comparison.

Reiterated the reasons for tendering for a new fund manager which were:

(i) Forced to increase the equity weighting of the fund due to the change from a discretionary fund to a pooled fund and the Committee was not comfortable with the resulting balance and the associated increase in risk;

(ii) Responsibility of the investment decisions shifting from the fund manager to the Committee. The Committee is not qualified to make the necessary investment decisions;

(iii) The Growth & Income Fund for Charities does not have a specified capital growth target.

Agreed that Newton would be advised that a tendering process for a new fund manager is being initiated after the FEF Trustees meeting on 18 November 2014.

Reviewed the tender requirements as set out in the email dated 3rd October and its attachments. Agreed the following:
(i) The tender panel will consist of two lay members and one College officer from the Investment Sub-Committee;
(ii) The revised proposed tender timetable;
(iii) The proposed questions and scoring with the exception of the presentation questions which are being reviewed by Nick Perryman.

12. **PUBLICATION**

   Confirmed the designation of papers as exempt from the Freedom of Information Act requirements.

**ANY OTHER BUSINESS**

There was no other business.

**DATE OF THE NEXT MEETING**

Wednesday 6th May 2015 at 1 pm in the Huntersdale Boardroom.

Lynne Rouse,
Exchequer Accountant
30th October 2014