INVESTMENT SUB-COMMITTEE
Minutes of the meeting of the Investment Sub-Committee held on 10th May 2012

Present: Mr J McIlroy (in the chair), Prof P Layzell, Mr G A Robinson, Mrs J Febry, Mr P Blagbrough, Mr G Dehal (from item 6.)

In Attendance for item: 8 Ms F Moncur
In Attendance for item: 9.1 Ms H Meades
In Attendance for item: 9.2 Mr R Curtis, Mr M Turner
With: Ms L Rouse (Secretary)

APOLOGIES
No apologies were received.

1. MEMBERSHIP
1.1 The Chairman welcomed Mr G Dehal to his first meeting of the Investment Sub-Committee.

2. MINUTES
2.1 The minutes of the meetings dated 28th October 2011 were agreed and signed.

3. MATTERS ARISING
3.1 Discussed the layout and contents of the report prepared for the Founders Endowment Fund Committee and agreed that the information needs to be supporting by an addendum detailing the background of the FEF together with the principles that govern the operation of the fund and the significance of the protected valuation. The report is to include the appropriate cross references to enable the report to be read more easily. A draft is to be circulated to members before the next meeting.

3.2 Noted that the underlying rationale for the fund managers’ target objectives had been circulated to members.

4. RE-ORGANISATION OF ABERDEEN ASSET MANAGEMENT
Noted that Aberdeen Asset Management had decided to merge a number of its group companies under the name Aberdeen Asset Managers Limited and that all contracts and agreements have transferred to this company.

5. VALUATIONS AS AT 31st March 2012
5.1 The Committee noted the following:
5.2 Market valuation at 31st March 2012 of the Founder’s Endowment Fund was £31,357K;  

7.3 Market valuation at 31st March 2012 of the Scholarship Fund was £4,869K;  

7.4 Market valuation at 31st March 2012 of the GERR was £2,459K;  

7.5 Market valuation at 31st March 2012 of the Hilda Martindale Fund was £814K.  

6. FOUNDER’S ENDOWMENT FUND 2011-12  

6.1 Noted that the RPI adjusted current protected value was £34,765K and the market value was £31,072K at 30th April 2012.  

7. PERFORMANCE OF THE SMALLER FUNDS AT 31 DECEMBER 2011  

7.1 The Committee noted the following:  

7.2 The General Endowment Fund performance for the quarter was 6.01% and the benchmark for the same period was 5.62% which is a small over performance of 0.39%. There is no comparable data for the year as yet.  

7.3 The Hilda Martindale Fund performance for the quarter was 6.12% and the benchmark for the same period was 5.62% which is a small over performance of 0.50%. There is no comparable data for the year as yet.  

7.4 The Scholarship Endowment Fund performance for the quarter was 6.07% and the benchmark for the same period was 5.62% which is a small over performance of 0.45%. There is no comparable data for the year as yet.  

8. WM COMPANY PROGRESS REPORT AT 31 DECEMBER 2011  

8.1 Noted that the WM Annual Review indicated that the total combined fund for the Founder’s Endowment Fund over performed the WM Charity Universe by 1.8% over the year which was attributed to asset allocation of 0.6% and stock selection of 1.1%.  

8.2 Noted that the WM Annual Review indicated that the total combined fund for the Founder’s Endowment Fund underperformed the strategic benchmark by -8.9% over the year.  

8.3 Noted that the WM Annual Review indicated that for the Founder’s Endowment Fund that both AAM and NIM both underperformed the strategic benchmark of 8.5% by -4.8% and -11.7% respectively for the year.  

8.4 Noted that the WM Annual Review indicated for the Founder’s Endowment Fund that AAM over performed their customised benchmark (known as the “Norm”) by 0.4% over the year.  

8.5 Noted that the WM Annual Review indicated for the Founder’s Endowment Fund that NIM underperformed their customised benchmark (known as the “Norm”) by -4.9% over the year.
8.6 Discussed the strategic return target of 8.5% over 3-5 years and the possibility that the fund managers would take more risks with the investment strategy to achieve the targeted return. WM agreed that the target was challenging but stated that there was no evidence to suggest that the fund managers were taking more risk, rather that the portfolio was at the lower end of the risk scale. WM stated that there was scope to apply additional risk without endangering the investment.

9. FUND MANAGERS PRESENTATIONS

9.1 NEWTON INVESTMENT MANAGEMENT (NIM)

NIM advised that the market value of the fund at 9th May 2012 was £17,755K.

NIM indicated that the main reason for their underperformance was that they were overweight in UK equities, and underweight in UK bonds and overseas equity, namely, North America. The Real Return Fund, which at 31 March 2012 represented 16% of the portfolio, underperformed its own benchmark by -0.4% after fees. The investment in the Real Return Fund is designed to protect the portfolio and in absolute terms it added value but in relative terms it detracted from the performance. This fund is designed to perform over the long term not on a quarter to quarter basis.

With regard to the secondary element of the performance target of achieving 3 – 4% annual income return the portfolio is estimated to give a return of 3.5%.

NIM have indicated that strategies have been put in place to address the underperformance issues, which appear to be house related rather than specific to the Founder’s Endowment Fund, by making staff changes to the investment team.

NIM agreed that the strategic objective was a sensible target that was achievable over the long term.

9.2 ABERDEEN ASSET MANAGEMENT (AAM)

AAM advised that the market value of the fund at 3rd May 2012 was £13,012K.

AAM reviewed the performance to 31st March 2012 over the three months, six months and 12 month terms where each period had slightly underperformed the customised benchmark. They attributed the reason to constructing the portfolio defensively i.e. decided not to invest in European banks which have would have given growth to the fund but not being invested caused a negative performance on overseas equities. In the 12 month period the overseas equities over performed which is causing AAM to believe that the underperformance in the 3 – 6 months is a temporary aberration.

AAM are currently holding a high level of cash due to having sold some investments and a currently waiting for the opportunity to re-invest into infrastructure stocks which yield high dividends.

The markets are very volatile at the moment so in the short term AAM has reduced the equity holdings in the fund to 50% and moved into bonds and alternatives.

AAM indicated that the strategic objective of 8.5% was challenging but they believe that they are capable of achieving it as over the 18 month period to 31st March 2012
the fund has returned a performance of 8.6%.

9.3 Following the presentations the Committee discussed the performance of the fund managers and expressed concern over the underperformance of Newton but acknowledged that they have only been managing the fund for a short period. The Committee noted the management changes that Newton had made to address the underperformance issue.

10. PUBLICATION

It was confirmed that the papers were not exempt from the Freedom of Information Act requirement.

11. ANY OTHER BUSINESS

There was not any other business.

12. DATE AND TIME OF NEXT MEETING

The next meeting will be held on 25th October 2012 at 12.30pm in the Huntersdale Boardroom.

Actions arising from the above:

i) Draft of FEF report to be circulated to members. (JF)

Lynne Rouse
Exchequer Accountant
16th May 2012