Minutes of the meeting of the Investment Sub-Committee held on 8th May 2014

Present: Mr Jeremy McIlroy (in the Chair), Professor Paul Layzell, Mr Paul Blagbrough, Mr Gurpreet Dehal, Mr Graeme Robinson, Mrs Jenny Febry

In attendance for item 10: Ms Fiona Moncur
In attendance for item 11: Ms Hilary Meades, Mr Christopher Metcalfe
In attendance for item 12: Mr Roger Curtis, Mr Michael Turner

1. MINUTES

The minutes of the meeting dated 25 October 2013(746-782) were agreed and signed. ISC/14/01

2. MATTERS ARISING FROM THE MINUTES

There were no matters arising not covered elsewhere on the agenda. ISC/14/02

GENERAL MATTERS

3. ABERDEEN ASSET MANAGEMENT (AAM) – ACQUISITION OF SCOTTISH WIDOWS INVESTMENT PARTNERSHIP

It was noted that AAM had acquired, effective 1 April 2014, Scottish Widows Investment Partnership from Lloyds Banking Group. ISC/14/03

4. AAM FOUNDERS ENDOWMENT FUND – PORTFOLIO OPTIMISATION

It was noted that AAM had submitted a proposal to optimise the portfolio of the Founders Endowment Fund. The Committee agreed by email that AAM already had the flexibility to take a market view in order to best meet the investment objectives, having regard to investment risk. This would be discussed with the managers. ISC/14/04

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

It was noted the current position of the proposed transfer to the pooled Income and Growth Fund, to be confirmed following the presentation by NIM. ISC/14/05

6. FOUNDER’S ENDOWMENT FUND – HISTORY AND PURPOSE

Received a report on the history and purpose of the Founder’s Endowment Fund. ISC/14/06

The Charities Commission agreed in 2005 that the Founder’s Endowment Fund could operate a total return policy. On 1 January 2014 the Charities (Total Return) Regulations 2013 came into force which provides a standard total return policy which charities can choose to adopt. The Regulations have not been investigated to see whether or not it would be more beneficial to the Founder’s Endowment Fund to operate on this basis. ISC/14/07
VALUATIONS AND PERFORMANCE

7. SUMMARY OF VALUATIONS

It was agreed that this report would no longer be required.

8. FOUNDER’S ENDOWMENT FUND (FEF)

It was noted that the RPI adjusted current protected value was £36,786K and the market value was £34,818K at 25 April 2014.

9. AAM INVESTMENT REVIEW OF NON-FEF FUNDS

It was noted that for the quarter ending 31 December 2013, the Scholarship Fund, Hilda Martindale Fund and the General Endowment Fund had all underperformed against the benchmark by 0.61%, 0.61% and 0.74% respectively.

WM AND FUND MANAGERS’ PRESENTATIONS

10. WM PRESENTATION

It was noted that the total combined FEF had over performed against the strategic benchmark by 4.6% for the year 2013 but over the three year period to 2013 there was an under performance of 1.6%. This was caused by the change of strategy that was implemented in 2011.

It was noted that the total combined FEF underperformed against the WM Charity Universe benchmark by 2.2% for the year 2013. The underperformance was attributable mainly to asset allocation which was caused by being below the benchmark in equities. Over the three year period to 2013 the underperformance was 1.0%.

It was noted that the FEF managed by Aberdeen over performed the strategic benchmark for 2013 by 1.4% but over the three years to 2013 underperformed by 1.2%. This was caused by the change of strategy that was implemented in 2011.

It was noted that the FEF managed by Aberdeen underperformed against the customised benchmark by 2.4% for the year 2013. This was caused in part by having high cash or cash like assets at the start of the year and in part by their stock selection. Aberdeen was invested in overseas equities which underperformed over the year.

It was noted that the FEF managed by Newton had over performed the strategic benchmark for 2013 by 6.8% but over the three years to 2013 had underperformed by 1.9%. Again, this was caused by the change of strategy that was implemented in 2011.

It was noted that the FEF managed by Newton had over performed the customised benchmark by 2.1% for the year 2013. This was caused by Newton’s stock selection as their choice had out performed over the year.

It was noted that for the first quarter in 2014 the total combined FEF had over performed the customised benchmark by 0.1% with Aberdeen contributing a positive return of 0.2% and Newton contributing a negative return of 0.1%.
11. NEWTON INVESTMENT MANAGEMENT

It was noted that Newton were withdrawing the discretionary management of the FEF and had proposed the transfer of the monies into the Growth & Income Fund for Charities which was a pooled fund. Consequently, the emphasis of Newton’s presentation was on the Growth & Income Fund for Charities. The fund’s objective was to maximise total returns for charities in terms of capital and income growth, currently the target minimum yield was 3%. The asset allocation was 80% equities, 38% UK and 42% overseas; 19% bonds and 1% Cash. It was envisaged that this asset allocation would remain the same for the long term to enable the income rate to be generated. The high level of equities in the fund was greater than the existing portfolio and this indicated that the risk to the investment would be greater than the existing portfolio. It had been suggested by Newton that the current investment in the Real Return Fund should be retained as this would offset the additional risk in the Growth & Income Fund for Charities. The Growth & Income Fund for Charities did not have a specified long term capital growth objective. 

The management fee for managing the above fund would be 0.5% of the total investment value and this would be exempt from VAT.

12. ABERDEEN ASSET MANAGEMENT

Received a presentation by Aberdeen on the quarterly performance to 31st Mar 2014. The FEF had underperformed the benchmark by -2.3% which was mainly caused by being underweight in Overseas Equities, namely, the fund had a low exposure to the USA markets. The value of the portfolio at 1 May 2014 was £14,463k which included a high cash level of £768k; the cash was waiting to be invested in property.

The GERR, Hilda Martindale and Scholarship Endowment Funds had all underperformed the benchmark by -1.06%, -1.11% and -1.15% respectively.

13. TRANSFER OF FEF MANAGED BY NEWTON

Discussed the transfer of the existing FEF portfolio with Newton to the Growth & Income Fund for Charities and the option of keeping the current investment in the Real Return Fund. The investment in the Real Return Fund was currently £3m and would have to be re-registered in the College name. If the investment in the Real Return Fund was aggregated across the FEF total fund the total investment in equities would be 70%, Retaining the Real Return Fund would reduce the investment in equities to 64%. This would effectively reduce the risk profile on the investment.

Clarification on the management of the Real Return Fund once it has been registered in the College’s name would be sought from Newton before a final decision was made to keep the investment in the Real Return Fund. This was done on the 13th May 2014. The Real Return Fund was a Newton Investment Management Fund and it would continue to be managed as it was at present. Newton managed the underlying assets and the fund was operated and administered by BNY Mellon Fund Managers, the same as the Newton Growth & Income Fund for Charities.

It was agreed to retain the Real Return Fund if the clarification on the management of the fund by Newton was satisfactory, liquidate the investment in the Property Fund and transfer the proceeds from this and the rest of the portfolio to the Growth & Income Fund for Charities.
It was noted that by investing in the Growth & Income Fund for Charities which has no specified target for capital growth over time that the Committee was abandoning the requirement for 8.5% total return.

It was agreed to contact WM to obtain their views on whether or not the specified targets of 3-4% annual income with a total return of 8.5% over 3-5 years was achievable in the current climate. This was done on the 20th May 2014 and WM have advised that most charities are targeting an absolute return of 6-7% p.a. over the medium/longer term which was around 4-4.5% ahead of inflation and this would seems reasonable given that the average fund over the last 20 years has achieved a return of 6.9%. The Charity Universe had recorded an annual average yield of around 3% p.a.

It was agreed to investigate the process necessary to appoint a new fund manager or to amalgamate the whole of the FEF under Aberdeen Asset Management.

14. PUBLICATION

It was confirmed that no papers were exempt from the Freedom of Information Act requirements.

ANY OTHER BUSINESS

There was no other business.

DATE OF THE NEXT MEETING

Thursday 23 October 2014 at 1.30 pm in the Huntersdale Boardroom.

Lynne Rouse,
Exchequer Accountant
19th June 2014