INVESTMENT SUB-COMMITTEE
Minutes of the meeting of the Investment Sub-Committee held on 27th October 2011

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

In Attendance for item: 8.1 Mr M Turner, Mr Phillip Ross

In Attendance for item: 8.2 Ms H Meades, Ms Suzanne Hutchins

With: Ms L Rouse (Secretary)

APOLOGIES

No apologies were received.

1. MINUTES

1.1 The minutes of the meeting dated 14th April 2011 were agreed and signed.

2. MEMBERSHIP

2.1 It was noted that Robert Potts has retired as Chairman of the Investment Sub Committee and Jeremy McIlroy has been appointed as Chairman to replace him.

2.2 The Chairman thanked Mr Potts for his considerable contribution to Committee business during his term of office.

2.3 The Chairman welcomed Mr Blagbrough to his first meeting of the Investment Sub Committee.

3. MATTERS ARISING

3.1 It was agreed that the next report to be prepared for the Founder’s Endowment Fund (FEF) committee meeting in November will present all the relevant information on the FEF in a comprehensive manner; bringing together the market valuation, investment performance and the utilisation of the income in support of the restoration of the Founder’s building and would be circulated to members of the Investment Sub Committee for comment before submission.

3.2 It was noted that the reporting requirements for the FEF have been agreed with WM to measure the fund managers’ performance.

3.3 It was noted that the FEF is now operated on a Total Return basis with a baseline capital of £20.2m (as at 31 July 1995) as stipulated by the Charities Commission in 2004 when the Trustees were given the power to apply part of the return on the investments for the purpose of the charity, without distinguishing between income and capital gains. It was noted that there no plans at present to apply capital returns.
3.4 The Committee discussed the accounting treatment of the fund manager’s fees and agreed that the internal accounting treatment would follow that of the fund managers by deducting the fees from capital rather than income.

Currently, the internal accounting entries for fees have been treated as a deduction from income which has led to the situation where the fund value reflected in the investment manager’s statements is less than the value in the internal accounts and over time this has built up and at the 2010-11 year end it was £1.0m.

It was agreed by the Committee that this £1.0m would be released from the endowment account to the I&E account during 2011-12 but that the funds should only be used for the restoration of the Founder’s building. It was noted that the additional restoration would probably be programmed for 2012-13.

4. FOUNDER’S ENDOWMENT FUND 11-12

4.1 It was noted that the RPI adjusted protected value was £34,086k and the market value was £29,964k at 13th October 2011.

5. VALUATIONS AS AT 30 SEPTEMBER 2011

5.1 The Committee noted the following:

5.2 Market valuation at 30th September 2011 of the Founder’s Endowment Fund was £28,989k;

7.3 Market valuation at 30th September 2011 of the Scholarship Fund was £4,479k;

7.4 Market valuation at 30th September 2011 of the GERR was £2,281k;

7.5 Market valuation at 30th September 2011 of the Hilda Martindale Fund was £754k.

6. PERFORMANCE ANALYSIS AS AT 30 JUNE 2011

6.1 It was noted that for the second quarter the Scholarship Fund over performed the benchmark by 0.38%; the Hilda Martindale over performed the benchmark by 0.52% and the General Endowment Fund over performed the benchmark by 0.42%.

7. WM COMPANY PROGRESS REPORT AT 30 SEPTEMBER 2011

7.1 It was noted that the total combined FEF under performed the Strategic benchmark by -10.0% for the quarter and -9.4% for the year.

It was noted that the total combined FEF over performed the WM Charity Funds Universe by 1.4% for the quarter and under performed the WM Charity Funds Universe for the year by -0.1%. The quarter’s over performance was attributed to 0.5% asset allocation and 0.8% to stock selection.

7.2 It was noted that the FEF managed by Newton under performed the Strategic benchmark by -11.7% for the quarter. There is no information for the year as yet.
It was noted that the FEF managed by Newton under performed the customised benchmark by -3.1% for the quarter and this was attributed to -3.6% asset allocation and 0.5% to stock allocation.

7.3 It was noted that the FEF managed by Aberdeen underperformed the Strategic benchmark by -7.5% for the quarter and -8.3% for the year.

It was noted that the FEF managed by Aberdeen equalled the customised benchmark for the quarter and over performed the year by 0.1%. (NB The year is a composite benchmark combining the current customised benchmark and the WM Charity Universe.) The quarter’s performance was attributed to -0.4% asset allocation and 0.4% to stock selection.

8. FUND MANAGERS PRESENTATIONS

8.1 ABERDEEN ASSET MANAGEMENT (AAM)

Discussed with AAM the revised objectives, in particular the secondary objective of achieving income of 3 – 4% p.a. in the current climate and whether or not this requirement causes them to take greater risks. AAM reassured the Committee that this was not the case as AAM was very mindful that protection of capital was of paramount importance. The new benchmark has given AAM more flexibility to achieve their targets as demonstrated this quarter; the FEF over performed the WM Charity Universe by 4.2% and in the six months over performed by 5.2%. This has been achieved by not “mirroring” the WM asset allocation.

AAM have indicated that the estimated performance for the year to 31st December 2011 will be positive however they have indicated that they will not meet the target return of 8.5%.

8.2 NEWTON INVESTMENT MANAGEMENT (NIM)

NIM has had a disappointing nine months performance as they have underperformed the benchmark by -3.8%; most of the underperformance came in the most recent quarter. The main reason was asset allocation being underweight in gilts although this was offset in part by the defensive equity stocks that NIM held together with the share of the portfolio that was in the Real Return Fund. The Real Return Fund protected the portfolio, returning -3.2% against -12.7% for world equities.

NIM confirmed, when questioned on their appetite for risk when a significant underperformance is present, that they do not take any additional risk to achieve the target returns but continue to take the long term view and manage the portfolio in the same manner.

9. PUBLICATION

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

10. ANY OTHER BUSINESS

The Committee discussed the target objectives that have been set for the fund managers and agreed that they were challenging in the current economic climate. The members of the Committee have changed since the targets were set,
consequently, the members would like a summary of the underlying rationale distributed to members to clarify the target objectives.

11. DATE AND TIME OF NEXT MEETING

The date of the next meeting is 10\textsuperscript{th} May 2012 at 10am in the Huntersdale Boardroom.

Actions arising from the above:

a) Draft report of the FEF Committee to be circulated to members.

b) Summary of the underlying rationale for the fund managers’ target objectives to be circulated to members.

Lynne Rouse
Exchequer Accountant
7\textsuperscript{th} November 2011