

STANDING FINANCE COMMITTEE

The Honourable R Edwards, MLA Chairman
The Honourable J Cheek, MLA
The Honourable Dr B Elsby, MLA
The Honourable I Hansen, MLA
The Honourable M Poole, MLA
The Honourable P Rendell MLA
The Honourable G Short, MLA
The Honourable M Summers, MLA

Honourable Members are advised that a meeting of the Standing Finance Committee will take place in the Liberation Room at 3pm on Wednesday 28th June 2017.

AGENDA

- 1 **Apologies for absence**
- 2 **Declarations of interest**
- 3 **Confirmation of the minutes of the meeting held on Wednesday 17th May 2017.** Already issued
- 4 **Matters arising from the minutes of the meeting held on Wednesday 17th May 2017.**
- 5 **Virement Report 10 of 2016/17**
- 6 **Investment Performance and Values Quarter ending 31st March 2017.** Paper 24/17
- 7 **To determine which items from the Executive Council meeting held on 28th June 2017 can be considered in public and to resolve these items.**
- 8 **Date of next meeting: Wednesday 12th July 2017**
- 9 **Exclusion of Press and Public.**

The Chairman to move as follows:

"I move that the press and public be now excluded on the grounds that the next items of business to be considered are likely to disclose exempt information under Part 2, Paragraph 10 relating to Enforcement activities in relation information about relevant contracts and negotiations and Paragraph 17 relating to budgetary information of Schedule 3 of the Committees (Public Access) Ordinance 2012.

- 10 **Confirmation of the Exempt Minutes of the meeting held on Wednesday 17th May 2017.**
- 11 **Matters arising from the Exempt Minutes of the meeting held on Wednesday 17th May 2017.**
- 12 **Exempt matters with financial implications referred from the Executive Council meeting held on Wednesday 28th June 2017**
- 13 **Reefer Container for use with Concordia Bay for Coastal Shipping Services. NOT FOR PUBLICATION** by virtue of Paragraph 10 of Schedule 3 of the Committees (Public Access) Ordinance 2012), relating to information about relevant contracts and negotiations. Paper 25/17
- 14 **Additional Information relating to new post. NOT FOR PUBLICATION** by virtue of Paragraph 17 of Schedule 3 of the Committees (Public Access) Ordinance 2012), relating to budgetary information. Paper 26/17
- 15 **Additional funds for Pension Board subsidy. NOT FOR PUBLICATION** by virtue of Paragraph 17 of Schedule 3 of the Committees (Public Access) Ordinance 2012), relating to budgetary information. Paper 27/17
- 16 **Request for Additional Funding for high cost drugs. NOT FOR PUBLICATION** by virtue of Paragraph 17 of Schedule 3 of the Committees (Public Access) Ordinance 2012), relating to budgetary information. Paper 28/17
- 17 **Confirmation of the Minutes of the Budget Select Committee meeting held on the 30th May 2017.** To follow

NOT FOR PUBLICATION by virtue of Part 2 – Schedule 1 of the Committees (Public Access) Ordinance 2012 as the matter relates to the consideration of the budget of a public body.

The Treasury,
Stanley.
22nd June 2017.

Summary of MTFP £000s		2016/17	2017/18	2018/19	2019/20	2020/21	5 year
Recurring operating budget per 2016/17 Budget Book		(1,848)	(2,971)	(2,594)	(1,461)	(1,639)	(10,513)
Approvals in year:							
	Jul-16	(369)	-	-	-	-	(369)
<i>Carryovers</i>	Aug-16	(2,496)	-	-	-	-	(2,496)
<i>Other Approvals</i>	Aug-16	(54)	-	-	-	-	(54)
	Sep-16	-	-	-	-	-	-
	Oct-16	-	-	-	-	-	-
	Nov-16	(250)	-	-	-	-	(250)
	Dec-16	-	-	-	-	-	-
	Jan-17	(52)	-	-	-	-	(52)
	Feb-17	(27)	(28)	(29)	(30)	(31)	(145) *
	Mar-17	(73)	-	-	-	-	(73)
	Apr-17	(200)	-	-	-	-	(200)
	May-17	(825)	-	-	-	-	(825)
Revised operating budget		<u>(6,193)</u>	<u>(2,999)</u>	<u>(2,623)</u>	<u>(1,491)</u>	<u>(1,670)</u>	<u>(14,976)</u>

* contingency warrant 6 ExCo 177/16 Interim Power Station estimate cost of stores building rental

STANDING FINANCE COMMITTEE

Title of Report: **Investment Performance and Values**
Quarter ending 31st March 2017

Paper no: **24/17**

Date of Meeting: **28th June 2017**

Report of: **Financial Accountant**

Purpose

1. The purpose of this report is to provide Members with an overview of:
 - a) Market values at 31st March 2017 for investments held to support FIG funds;
 - b) Performance to 31st March 2017 of the investments compared with their respective benchmarks; and,
 - c) Investment information from the fund managers.

Recommendation

2. None. The report is for information only.

Market Values

3. The following table summarises the market value of investments held in each FIG Fund over the last quarter compared with previous periods.

Table 1: Quarterly Investment Values

Fund Name	Fund Manager	31 st Mar 2015 £M	30 th June 2015 £M	30 th Sept 2015 £M	31 st Dec 2015 £M	31 st Mar 2016 £M	30 th June 2016 £M	30 th Sept 2016 £M	31 st Dec 2016 £M	31 st Mar 2017 £M
Income	Newton	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Growth	Newton	79.6	76.9	75.3	78.9	80.2	85.1	90.2	90.6	95.0
Growth	Sarasin	66.7	64.7	62.0	64.7	64.2	67.1	71.3	72.6	75.9
Currency	Newton	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Insurance	Sarasin	29.1	28.5	29.1	29.0	29.9	31.0	31.6	31.1	31.5
Capital Equalisation	Newton	33.8	33.6	33.8	33.7	34.4	35.4	35.9	35.6	36
Retirement Pensions	Sarasin	51.6	50.0	48.0	50.1	49.8	52.5	56.1	57.1	59.8
Pensions (Old Scheme)	Newton	24.0	23.1	23.5	23.1	24.4	26.9	29.6	28.9	29.5
Fund Total		293.1	285.1	280	287.8	291.2	306.3	323	324.2	336
Cumulative net withdrawals/(additions)		0.0	0.0	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Funds plus withdrawals		293.1	285.1	283	290.9	294.3	309.4	326.1	327.3	339.1

The bottom row indicates potential performance after allowing for cash withdrawals/additions.

The funds have continued to be very volatile so far this year; increasing by £11.8m in this quarter after increasing only by £0.92m in the previous quarter. During recent years the market has been volatile and difficult to predict. However, Equity markets have made a good start to the year, helped by strong emerging markets. Bond markets have also produced positive returns. The trend of declining bond yields and equity market distortions is now close to an end as the massive central bank liquidity is gradually withdrawn, investors will once again focus on those companies which can deliver growth in challenging economic circumstances.

The most significant movements are as follows:

- Sarasin Growth Fund increase of £3.33M consisting of £421K interest received, £518K realised gains and a £2.4m increase in unrealised gains.
- Newton Growth Fund increase of £4.42M consisting of £625K interest received, £1.4m realised gains and a £2.4m increase in unrealised gains.
- Sarasin Retirement Pensions Fund increase of £2.7m mainly comprising of £290K in interest received, £516k realised gains and a £1.9m increase in unrealised gains less £5K investment management fees.

Consolidated Fund Investments
(Growth and Income Funds)

4. The Consolidated Fund contains surplus Government funds that have not been allocated for specific purposes. The balance of investments is shown below. It should be noted that these investments do not account for the total value of the Consolidated Fund. This report only shows those funds held with FIG's external investment managers. It does not include other liquid assets such as debtors and cash held locally.

Table 2: Summary of Market and Non-Market Movements for the Year per Fund

Fund Name	Fund Manager	Market Value 31/03/16 £'000	Non-market movement	Market movements	Market Value 31/03/17 £'000	Mkt mvt %
Growth	Sarasin	64,197	(94)	11,774	75,877	18.3
Growth	Newton	80,156	-	14,825	94,981	18.5
Income	Newton	4,725	-	15	4,740	0.3
Total		149,078	(94)	26,614	175,598	17.9

5. An analysis of the changes is shown in Table 3. There was an overall gain of £7.73m this quarter (compared to a gain of £1.63m last quarter) and an overall gain of £26.6m over the past 12 months.

Table 3: Detail of Periodic Market and Non-Market Movements

a. Growth and Income Funds

<u>Analysis of Investment Movements up to 31/03/17</u>	Quarter From 01/01/17 £M	Year From 01/04/17 £M	Financial YTD £M	Budget YTD £M	Budget Variance YTD £M
Market Movements					
Investment income	1.05	4.38	3.80	2.57	1.23
Net gain (loss) on sales	1.94	5.11	8.01	2.27	5.74
Increase in market value	4.75	17.12	15.69		
Total market movements	7.74	26.61	29.61		
Non-Market Movements					
Add / (withdraw) funds	-	-	-		0.12
Investment managers fees	(0.01)	(0.09)	(0.05)	(0.17)	
Total non-market	(0.01)	(0.09)	(0.05)		
Increase in value	7.73	26.52	29.56		

Note: unrealised market value changes and fund withdrawals are not included as budget items.

b. Special Funds *(These are the Currency, Insurance, Capital Equalisation, and Pensions Funds)*

<u>Analysis of Investment Movements</u> <u>up to 31/03/17</u>	Quarter From 01/01/17 £M	Year From 01/04/16 £M	Financial YTD £M
Market Movements			
Investment income	0.82	3.17	2.34
Net gain (loss) on sales	0.44	2.90	2.72
Increase in market value	2.83	12.30	5.94
Total market movements	4.09	18.37	11.00
Non-Market Movements			
Add / (withdraw) funds	-	-	-
Investment managers fees	(0.01)	(0.15)	(0.09)
Total non-market	(0.01)	(0.15)	(0.09)
Increase in value	4.08	18.22	10.91

c. Combined

<u>Analysis of Investment Movements</u> <u>up to 31/03/17</u>	Quarter From 01/01/2017 £M	Year From 01/04/2016 £M	Financial YTD £M
Total market movements	11.83	40.47	40.61
Total non-market	(0.02)	(0.24)	(0.24)
Increase in value	11.81	40.23	40.37

6. Appendix A illustrates the trends in total market value of the Growth and Income Funds and the effects of cash transfers since September 2010.

7. Special Fund Investments

(These are the Currency, Insurance, Capital Equalisation, and Pensions Funds)

8. FIG holds these funds for a number of specific purposes and each has its own guidelines allocating investments between different asset classes such as bonds and equities. The value of these investments at 31st March 2017 is shown in the table below:

Table 4: Summary of Market and Non-Market Movements for the Year per Fund

Fund Name	Fund Manager	Market Value 31/03/16 £'000	<i>Non-market movement</i> £'000	<i>Market movements</i> £'000	Market Value 31/03/17 £'000	<i>Mkt mvt %</i>
Insurance	Sarasin	29,935	(69)	1,631	31,497	5.4
Pension Equalisation Fund	Sarasin	49,786	(84)	10,118	59,820	20.3
Currency	Newton	3,633	-	11	3,644	0.3
Capital Equalisation	Newton	34,447	-	1,550	35,998	4.5
Pensions (Old Scheme)	Newton	24,408	-	5,062	29,470	20.7
Total		142,209	(153)	18,373	160,429	12.92

9. The portfolio value has increased by £18.220m (13%) over the past year. This combines market gains of £18.4m with non-market decreases of £153k.
10. The most significant market movement during the year is in respect of the two pension funds where the portfolios have benefitted from recoveries in global equities and emerging markets.
11. Appendix B illustrates the total market value of the Special Funds (and amounts transferred) since September 2010.

Investment Performance

12. Performance of funds is monitored quarterly by means of:

- a) Comparison of fund returns achieved by the investment managers; and,
- b) Comparison to agreed benchmarks.

13. The tables below summarise Newton's and Sarasins's fund performance to date:

Table 5: Cumulative investment growth to 31st March 2017

Fund Name	Fund Manager	Qtr %	1 year %	3 years %	Since inception %	Investment class
Income	Newton	0.04	0.31	1.00	78.18	Cash
Growth	Newton	4.94	18.62	37.43	309.27	Balanced
Currency	Newton	0.04	0.31	1.00	75.22	Balanced
Capital Equalisation	Newton	1.19	4.56	10.36	135.12	Cash
Pensions (Old Scheme)	Newton	2.09	20.74	46.20	221.23	Bonds
Growth	Sarasins	4.60	12.10	26.40	52.40	Bonds
Insurance	Sarasins	1.10	7.40	15.90	34.00	Balanced
Retirement Pensions	Sarasins	4.80	14.20	28.40	55.80	Bonds

Table 6: Cumulative performance relative to benchmark to 31st March 2017

Fund Name	Fund Manager	Quarter %	1 year %	3 years %	Since inception %
Income	Newton	(0.03)	(0.07)	(0.28)	3.94
Growth	Newton	0.80	(1.09)	1.18	47.70
Currency	Newton	(0.03)	(0.07)	(0.35)	(1.43)
Capital Equalisation	Newton	0.48	0.83	0.76	10.41
Pensions (Old Scheme)	Newton	(0.2)	(1.90)	(3.61)	(11.21)
Growth	Sarasins	0.40	(5.70)	(10.70)	(19.20)
Insurance	Sarasins	(0.40)	(0.80)	(3.80)	(4.40)
Retirement Pensions	Sarasins	0.50	(6.20)	(10.60)	(18.40)

Notes: Calculated as % actual growth less % benchmark growth. Inception dates for Newtons were between June and August 1998, except for the Pensions (Old Scheme) which commenced on 11 May 2001. For Sarasins, the inception date was 21 April 2011.

14. As evidenced in Table 6 there has been mixed performance this quarter all funds have in relative terms with the two Growth funds, Capital Equalisation and Retirement Pensions fund outperforming budget with only modest underperformance on the others. As shown in Table 5, in absolute terms, all funds grew in the quarter. Performance over the year shows that only the Capital equalisation fund has exceeded the benchmark over the last year.

Overview – Newton's Portfolios & Performance

15. In the latest quarter the Newton's Growth Fund grew by 4.94% compared to growing 0.36% in the previous quarter, outperforming against the benchmark of 4.14% by 0.8%.

As the fund has three separate components, the background to each is outlined in the table below:

Table 7: Growth Fund Component Performance

Sector	Actual %	Benchmark %	Background
Equity	3.09	4.02	During this quarter the equity element of the portfolio underperformed benchmark by 0.93%.
Fixed Interest	1.74	1.72	The Fund produced a positive absolute return over the quarter, outperforming its cash reference. Range-bound government-bond yields, upbeat global growth expectations and moderating US policy anxieties enabled both government bonds and corporate debt holdings to generate positive returns over the period.
Property	3.97	1.88	Property has remained resilient in the UK after the initial Brexit induced sell off and rebound in Q2 and Q3 of 2016. Although the question marks remain over whether a number of firms will have to transfer jobs out of London into EU countries, the weakness of £ sterling has encouraged foreign buyers, with Chinese and Middle Eastern investors to the fore.

16. Newton's portfolio management:

- **Growth Fund – Fixed Interest:** 19% of the fund is invested in fixed interest assets, as was the case last quarter, which is slightly underweight compared to the benchmark allocation of 25%.
- **Growth Fund – Equity:** 65.4% of the fund is invested in equity, 30% is UK stocks, with the remaining 35.4% in overseas stocks. The largest overseas exposure is in North America and Europe, with 14.6% and 8% of the portfolio respectively.
- **Growth Fund – Property:** 12% of the portfolio is invested in property, and has slightly increased from the previous quarter but remains below the benchmark allocation of 15%
- **The Pensions (Old Scheme) Fund:** The Fund delivered a positive return of 2.1% for the quarter, which recovered most of the loss of Q4 2016. Over the rolling 12 months, the return was 20.74%, well above the expected annualised long-term rate. The Index Linked Fund returned 2.0% and performed in line with its comparative index. The 50/50 Equity Fund however underperformed with a return of 3.8% against 5.3% for its comparative index. This resulted in the overall fund return being 2.1% and behind its benchmark return of 2.3%,
- **Capital Equalisation Fund:** The fund outperformed the benchmark by 0.48% during the quarter. The fund was slightly long duration and underweight the under 5yr portion of the gilt curve, which underperformed. The higher than benchmark yield of the Global Dynamic Income Fund also meant that the performance of the fund kept pace with the benchmark despite its shorter duration

Overview – Sarasin’s Portfolios & Performance

17. Sarasin’s Portfolio Management:

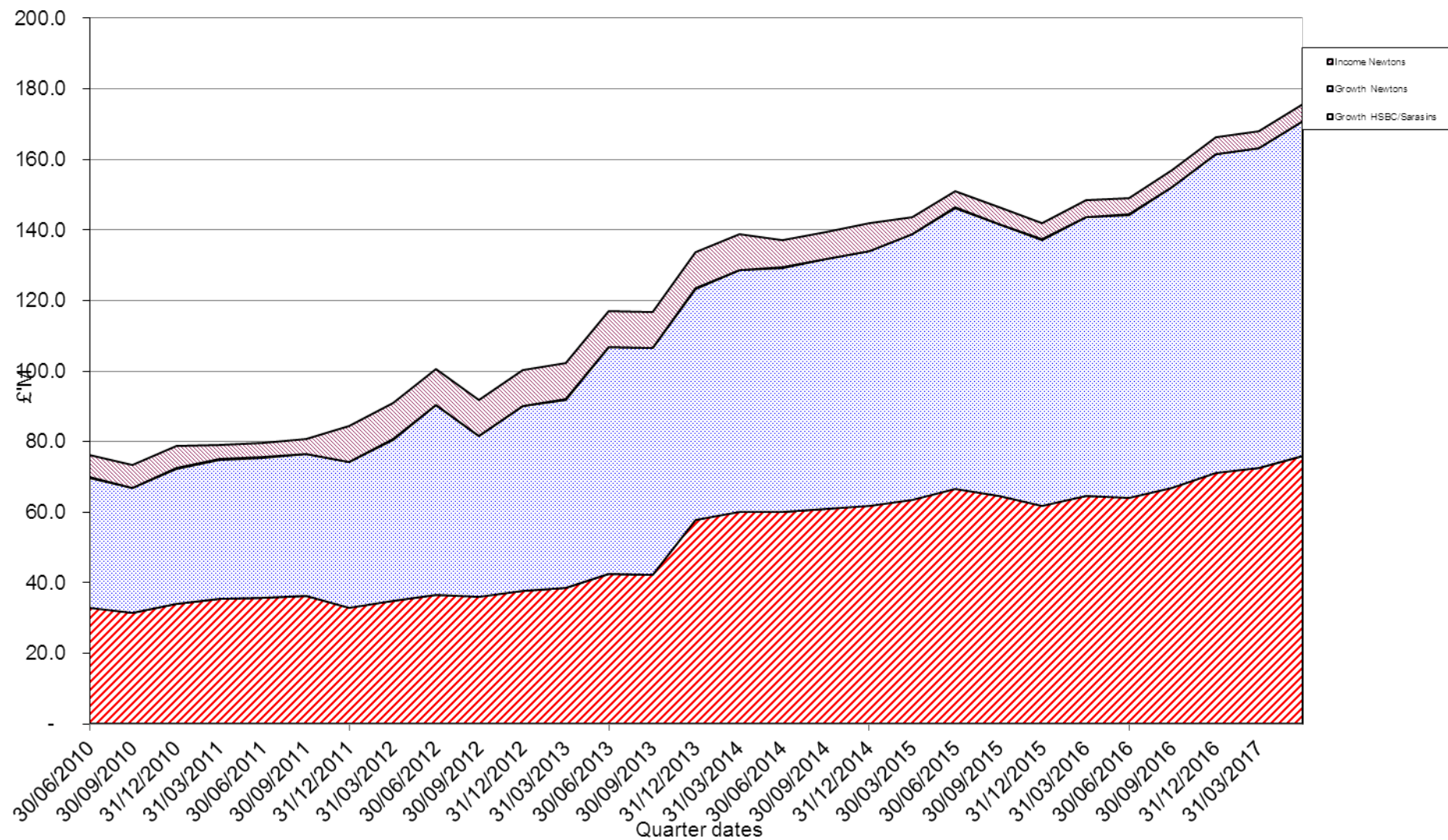
- **Growth Fund** – The Growth Fund return was +4.6% for the quarter ahead of the benchmark return of +4.2%. The key reason for your portfolio returns being ahead of the benchmark this quarter has been a recovery in stock selection, driving out-performance within global equities and emerging markets. Key thematic stock ideas such as CSL, Activision Blizzard, Samsonite and Mobileye have all been strong performers. Within UK equities cyclical businesses such as Glencore, IMI and Barratt Developments have performed well, whereas energy stocks have been relatively weak.
- **Pension Equalisation Fund** – The Pension Equalisation Fund return was +4.8% ahead of the benchmark return of +4.3%.
- **Insurance Fund** – The Insurance portfolio return was +1.1% for the quarter, behind the benchmark return of +1.5%. Bond markets have produced small positive returns in the first quarter. Inflation continues to tick up in western economies, particularly in the UK, given the fall in sterling and the rebound in oil prices. Despite this pick-up in inflation we expect the Bank of England and the ECB will look through this inflationary period and resist the temptation to raise interest rates. In the US, low unemployment (4.7%) and the rebound in sentiment has allowed the FED scope to raise interest rates for the third time since the financial crisis. This has been largely anticipated by the bond markets, which are predicting a further two 0.25% increases in rates by the end of the year.

Market Background

Appendix C provides market background, commentary and outlooks from each of the fund managers.

Consolidated Fund (Growth and Income Fund portfolios) - market values & cash transfers

Appendix A



Special funds - market values & cash withdrawals

Appendix B

