

INVESTMENT SUB-COMMITTEE

Minutes of the virtual meeting of the Sub-Committee held on the 23rd October 2020 at 10.00 a.m.

PRESENT: Councillors Elias (Chair), Farr and Jones.

APOLOGIES FOR ABSENCE: Councillors Bourne and M.Cooper.

1. MINUTES

The minutes of the meeting held on the 21st May 2020 were approved as a correct record.

2. PRESENTATION FROM UBS MULTI-ASSET INCOME FUND MANAGERS

The Sub-Committee resolved to move into confidential session for this item in accordance with Section 100A (4) of the Local Government Act 1972 on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The Council had invested £3 million in this fund which sought to generate an income of 'cash plus 3%'. It aimed to achieve a stable and sustainable yield without eroding capital. The Sub-Committee received a presentation from UBS representatives Rachel Perini (Executive Director) and Dimitris Skountzos (Client Service Manager). This covered UBS's approach to multi-asset investing with an assessment of the fund's performance to date. It was noted that the fund had limited foreign currency exposure to the extent of only 2%.

Arising from the presentation, Members requested clarification about on-going fund charges and mandate costs and the current value of the Council's investment to date. Rachel Perini undertook to provide this information after the meeting.

3. SUMMARY INVESTMENT AND BORROWING POSITION

The investment analysis at Appendices A and B was considered, together with fact sheets for the four funds within the Council's treasury investment portfolio. The current statement of investment beliefs was also included with the agenda papers.

The Sub-Committee had previously agreed that redemption proceeds from Funding Circle loans be withdrawn from Funding Circle and reallocated to the CCLA diversification fund, Schroders bond fund and UBS multi-asset fund. Members were advised that the Funding Circle redemption proceeds (which now amounted to £550,000) had not, in fact, been reinvested. The deputy Chief Finance Officer explained the reasons for this and sought the Sub-Committee's views about whether the proceeds should, instead, be retained as a possible contingency for assisting with the Council's cash flow requirements later in the current financial year. The Sub-Committee favoured this alternative approach, pending a review of the situation at the next meeting.

Arising from discussion about the loan to Freedom Leisure, it was confirmed that no repayments had been received since the third quarter of 2019/20.

Members also suggested that the statement of investment beliefs be reviewed at the Sub-Committee's next meeting.

RESOLVED – that

- A. the Council's investment and borrowing position at 30th September 2020, as set out at Appendices A and B, be noted;
- B. the individual factsheets for the long-term investments be noted;
- C. the current statement of investment beliefs be noted; and
- D. the reallocation of accumulated Funding Circle redemption proceeds be deferred, pending a review (at the Sub-Committee's next meeting) about whether they should be used to meet the Council's cashflow requirements.

4. PROPERTY INVESTMENT UPDATE

The Sub-Committee resolved to move into confidential session for this item in accordance with Section 100A (4) of the Local Government Act 1972 on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The accompanying report updated Members on asset management activity and the performance of the Council's commercial property investments. This confirmed that the Quadrant House regeneration project (in Caterham Valley) was a key priority in view of the pressing deadline for spending the funding made available by the Local Enterprise Partnership. Officers provided further information about the work to progress the Quadrant House initiative and offered to submit a progress report via the Delegated Action List in the near future.

It was noted that property B (referred to in recommendation C of the minutes of the previous meeting under item 5) was no longer available as it had been acquired by another investor at a price and subject to conditions, both similar to the ones previously agreed by the Sub-Committee. It was further noted that not proceeding with the acquisition of property B had left a gap of approximately £200,000 per annum (net after borrowing costs) in the commercial income budget.

The merits of reducing the capital programme, given the current shortage of suitable commercial property acquisitions, were discussed. The total provision of £200 million for property investments to March 2021 would be significantly underspent and it was suggested that the budget be decreased to reflect actual activity, with future investment opportunities being considered on a case by case basis.

RESOLVED – that

- A. the Council's property investment activity be noted;
- B. for capital budget for the development of a commercial property investment portfolio be reduced and future suitable investments be considered on a case by case basis; and
- C. a progress report regarding Quadrant House be submitted in the near future as part of the Delegated Action List

5. DATE OF NEXT MEETING

It was agreed that the next meeting be held on Friday, 15th January 2021 at 10.00 a.m.

Rising: 12.05 p.m.

| Investment | Investment Amount at 30/09/2020 | Net Asset Value at 30/09/2020 Note 1 | Yield Rate Note 2 | Yield to 30/09/20 Note 3 | Estimated Annual Return 2020/21 at 31/03/2021 | 2019/20 Actual |
|--|---------------------------------|--------------------------------------|-------------------|--------------------------|---|------------------|
| | £ | £ | % | £ | £ | £ |
| Non - Specified (Financial Investments)- Long Term (over 12 mths) | | | | | | |
| CCLA Property Fund | 4,000,000 | 4,013,737 | 4.26 | 40,761 | 171,000 | 185,240 |
| Schroders Bond Fund | 3,000,000 | 2,798,400 | 4.50 | 33,903 | 125,900 | 124,418 |
| UBS Multi Asset Fund | 3,000,000 | 2,721,211 | 4.40 | 36,832 | 119,700 | 137,531 |
| Funding Circle | 1,261,826 | 1,415,581 | 3.30 | 19,476 | 40,000 | 78,011 |
| CCLA Diversification Fund | 2,000,000 | 1,928,260 | 3.46 | 35,972 | 66,700 | 66,284 |
| Sub Total Non-specified (Financial Investments) | 13,261,826 | 12,877,189 | | 166,944 | 523,300 | 591,484 |
| Non - Specified (Non-Financial Investments)- Long Term (over 12 mths) | | | | | | |
| Gryllus Property Company Loan - Maidstone | 2,394,000 | 2,394,000 | 5.81 | 0 | 139,100 | 139,023 |
| Tandridge Leisure Ltd- Refurbishment Loan (TTLC) | 0 | 0 | 0.00 | 0 | 0 | 1,520 |
| Freedom Leisure- Loan (TLP) | 1,017,000 | 1,017,000 | 5.50 | 0 | 53,271 | 63,926 |
| Freedom Leisure- Loan (de Stafford) | 651,750 | 651,750 | 7.58 | 0 | 47,050 | 54,484 |
| Caterham Barracks | 0 | 0 | 0.00 | 0 | 0 | 21,774 |
| Gryllus Property Company Loan - 80-84 Station Rd East | 945,000 | 945,000 | 5.81 | 0 | 54,900 | 53,924 |
| Gryllus Property Company Loan - Castlefield | 11,664,000 | 11,664,000 | 6.10 | 0 | 711,500 | 0 |
| Gryllus Property Company Share Capital Note 4 | 5,317,500 | 5,317,500 | - | - | - | 0 |
| Sub Total Non-specified (Non-Financial Investments) | 21,989,249 | 21,989,249 | | 0 | 1,005,821 | 334,651 |
| Total Non-Specified Investments | 35,251,075 | 34,866,438 | | 166,944 | 1,529,121 | 926,135 |
| Specified Investments-Short Term (less than 12 mths) | | | | | | |
| Banks/Building Societies Deposits | 0 | - | 0.00 | 0 | 0 | 6,381 |
| Notice Accounts | 4,000,000 | 4,040,001 | 0.09 | 3,940 | 12,400 | 20,919 |
| Money Market Funds | 10,720,000 | 10,720,000 | 0.03 | 9,883 | 20,000 | 75,255 |
| Total Specified Investments | 14,720,000 | 14,760,001 | | 13,823 | 32,400 | 102,555 |
| Total Non- Specified and Specified Investments | 49,971,075 | 49,626,439 | | 180,767 | 1,561,521 | 1,028,690 |
| Total Investment Income Budget 2020/21 | | | | | 2,764,200 | |
| Over/(under) budget | | | | | (1,202,679) | |

| Borrowing | Loan Amount | Estimated Average Borrowing | Interest | Expenditure to 30/09/20 | Estimated Annual Cost 2020/21 at 31/03/2021 |
|--|--------------------|-----------------------------|----------|-------------------------|---|
| | £ | £ | % | £ | £ |
| General Fund Borrowing | | | | | |
| Gryllus Loan | 3,420,000 | 3,420,000 | 2.46 | 42,066 | 84,100 |
| Freedom Leisure Loan | 2,225,000 | 2,225,000 | 2.45 | 27,256 | 54,500 |
| Village Health Club | 938,678 | 938,678 | 2.38 | 11,170 | 22,300 |
| Linden House | 4,175,000 | 4,175,000 | 2.69 | 56,154 | 112,300 |
| Linden House | 254,000 | 254,000 | 2.42 | 3,073 | 6,100 |
| Quadrant House | 15,340,000 | 15,340,000 | 2.41 | 184,847 | 369,700 |
| Quadrant House | 800,000 | 800,000 | 2.28 | 9,120 | 18,200 |
| Gryllus - 80-84 Station Road | 724,400 | 724,400 | 2.28 | 8,258 | 16,500 |
| Gryllus - Castlefield | 15,549,000 | 15,549,000 | 2.91 | 226,238 | 452,500 |
| | | | | | |
| Sub Total General Fund Borrowing | 43,426,078 | 43,426,078 | | 568,182 | 1,136,200 |
| | | | | | |
| General Fund Cost of Borrowing Budget | | | | | 1,889,000 |
| Over/(Under) Budget | | | | | (752,800) |
| | | | | | |
| HRA Borrowing | | | | | |
| Public Works Loan Board | 61,189,000 | 61,189,000 | 2.76 | 831,153 | 1,662,300 |
| | | | | | |
| Sub Total HRA Borrowing | 61,189,000 | 61,189,000 | | 831,153 | 1,662,300 |
| | | | | | |
| HRA Cost of Borrowing Budget | | | | | 1,926,500 |
| Over/(Under) Budget | | | | | (264,200) |
| | | | | | |
| Total Borrowing | 104,615,078 | 104,615,078 | | 1,399,335 | 2,798,500 |
| Total Cost of Borrowing Budget | | | | | 3,815,500 |
| Total Over/(Under) Budget | | | | | (1,017,000) |

Notes

1. The Net Asset Value for Funding Circle is at 31 Aug 2020

2. Yield Rate

CCLA Property Fund dividend yield Sept 20 provisional provided by CCLA 4.26%

Schroders Strategic Credit Fund Fact sheet on Schroders.co.uk current yield as at 31 Aug 2020 4.5%

UBS distribution yield latest per UBS Fact Sheet (Q2 20) 4.4 %

CCLA Diversified Fund dividend yield Sept 20 - 3.46% provided by CCLA

Funding Circle yield based on net earnings to 31 Aug 2020 per Funding Circle statement

3. Yield to 30/09/20 include actuals received or notified of at this date - CCLA Property Fund, UBS & Schroders only show 1 quarter, Diversified income Fund shows 2 quarters.

4. Gryllus share capital comprises of equity shares arising from loans granted - no dividend will be paid in the current year

Market Value of Long Term Investments at 30/09/2020

Appendix B

| Carrying Value | Carrying Value 31.3.2017 | Carrying Value 31.3.2018 | Carrying Value 30.6.2018 | Carrying Value 30.9.2018 | Carrying Value 31.12.2018 | Carrying Value 31.3.2019 | Carrying Value 30.6.2019 | Carrying Value 30.9.2019 | Carrying Value 31.12.2019 | Carrying Value 31.03.2020 | Carrying Value 30.09.2020 |
|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| CCLA Property Fund | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 |
| Schroders Bond Fund | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| UBS Multi Asset Fund | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| CCLA Diversification Fund | n/a | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Total | 10,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 | 12,000,000 |

| Market Value | Market Value 31.3.2017 | Market Value 31.3.2018 | Market Value 30.6.2018 | Market Value 30.9.2018 | Market Value 31.12.2018 | Market Value 31.3.2019 | Market Value 30.6.2019 | Market Value 30.9.2019 | Market Value 31.12.2019 | Market Value 31.03.2020 | Market Value 30.09.2020 |
|--|---------------------------|---------------------------|---------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|----------------------------|----------------------------|----------------------------|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| CCLA Property Fund(mid-market value) | 4,082,986 | 4,276,854 | 4,299,512 | 4,300,362 | 4,369,186 | 4,276,005 | 4,346,669 | 4,302,769 | 4,302,769 | 4,188,063 | 4,013,737 |
| Schroders Bond Fund | 2,963,563 | 2,912,837 | 2,908,609 | 2,891,399 | 2,825,575 | 2,865,130 | 2,910,421 | 2,873,584 | 2,934,878 | 2,539,938 | 2,798,400 |
| UBS Multi Asset Fund | 3,018,705 | 2,918,160 | 2,895,094 | 2,905,148 | 2,777,398 | 2,868,479 | 2,916,977 | 2,927,623 | 2,957,787 | 2,520,713 | 2,721,211 |
| CCLA Diversification Fund(indicative market value) | n/a | 1,921,257 | 1,972,126 | 1,990,756 | 1,913,197 | 1,982,167 | 2,032,111 | 2,049,420 | 2,074,392 | 1,804,193 | 1,928,260 |
| Total | 10,065,254 | 12,029,108 | 12,075,341 | 12,087,665 | 11,885,356 | 11,991,781 | 12,206,179 | 12,153,396 | 12,269,826 | 11,052,907 | 11,461,608 |

| Surplus/(Deficit) | Surplus/ (Deficit) 31.3.2017 | Surplus/ (Deficit) 31.3.2018 | Surplus/ (Deficit) 30.6.2018 | Surplus/ (Deficit) 30.9.2018 | Surplus/ (Deficit) 31.12.2018 | Surplus/ (Deficit) 31.3.2019 | Surplus/ (Deficit) 30.6.2019 | Surplus/ (Deficit) 30.9.2019 | Surplus/ (Deficit) 31.12.2019 | Surplus/ (Deficit) 31.03.2020 | Surplus/ (Deficit) 30.09.2020 |
|---------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| CCLA Property Fund | 82,986 | 276,854 | 299,512 | 300,362 | 369,186 | 276,005 | 346,669 | 302,769 | 302,769 | 188,063 | 13,737 |
| Schroders Bond Fund | (36,437) | (87,163) | (91,391) | (108,601) | (174,425) | (134,870) | (89,579) | (126,416) | (65,122) | (460,062) | (201,600) |
| UBS Multi Asset Fund | 18,705 | (81,840) | (104,906) | (94,852) | (222,602) | (131,521) | (83,023) | (72,377) | (42,213) | (479,287) | (278,789) |
| CCLA Diversification Fund | n/a | (78,743) | (27,874) | (9,244) | (86,803) | (17,833) | 32,111 | 49,420 | 74,392 | (195,807) | (71,740) |
| Total | 65,254 | 29,108 | 75,341 | 87,665 | (114,644) | (8,219) | 206,179 | 153,396 | 269,826 | (947,093) | (538,392) |

Appendix B

| Gross Revenue Yield | Yield | Yield | Yield | Yield | Yield | Yield | Yield | Yield |
|---------------------------|----------------|---------|----------------|---------|----------------|---------|----------------|---------|
| | 2016/17 | 2016/17 | 2017/18 | 2017/18 | 2018/19 | 2018/19 | 2019/20 | 2019/20 |
| | £ | % | £ | % | £ | % | £ | % |
| CCLA Property Fund | 164,434 | 4.03% | 193,758 | 4.53% | 183,989 | 4.30% | 185,240 | 4.31% |
| Schroders Bond Fund | 127,340 | 4.30% | 105,413 | 3.62% | 120,508 | 4.21% | 124,418 | 4.33% |
| UBS Multi Asset Fund | 100,600 | 3.33% | 146,788 | 5.03% | 116,513 | 4.06% | 137,531 | 4.70% |
| CCLA Diversification Fund | n/a | n/a | 62,732 | 3.27% | 67,030 | 3.38% | 66,284 | 3.23% |
| Total | 392,375 | | 508,691 | | 488,040 | | 513,473 | |

| FY Forecast at 30-Sept-20 | |
|---------------------------|-------------|
| Yield 20-21 | Yield 20-21 |
| 30.09.2020 | 30.09.2020 |
| £ | % |
| 171,000 | 4.26% |
| 125,900 | 4.50% |
| 119,700 | 4.40% |
| 66,700 | 3.46% |
| 483,300 | |

| Surplus/(Deficit)- Capital Value | Surplus/ | Surplus/ | Surplus/ | Surplus/ | Surplus/ | Surplus/ | Surplus/ | Surplus/ |
|----------------------------------|-----------------|-----------|-----------------|-----------|-----------------|-----------|------------------|-----------|
| | (Deficit) | (Deficit) | (Deficit) | (Deficit) | (Deficit) | (Deficit) | (Deficit) | (Deficit) |
| | 2016/17 | 2016/17 | 2017/18 | 2017/18 | 2018/19 | 2018/19 | 2019/20 | 2019/20 |
| | £ | % | £ | % | £ | % | £ | % |
| CCLA Property Fund | (92,996) | -2.28% | 193,868 | 4.53% | (849) | -0.02% | (87,942) | -2.04% |
| Schroders Bond Fund | 16,634 | 0.56% | (50,726) | -1.74% | (47,707) | -1.67% | (325,192) | -11.32% |
| UBS Multi Asset Fund | 36,559 | 1.21% | (100,545) | -3.45% | (49,681) | -1.73% | (347,766) | -11.88% |
| CCLA Diversification Fund | n/a | n/a | (78,743) | -4.10% | 60,910 | 3.07% | (177,974) | -8.68% |
| Total | (39,803) | | (36,146) | | (37,327) | | (938,874) | |

| FY Forecast at 30-Sept-20 | |
|---------------------------|-----------|
| Surplus/ | Surplus/ |
| (Deficit) | (Deficit) |
| 2020/21 | 2020/21 |
| £ | % |
| (289,032) | -6.72% |
| (75,184) | -2.62% |
| (206,412) | -7.05% |
| (121,160) | -5.91% |
| (691,788) | |

| Net Yield | Net Yield | Net Yield | Net Yield | Net Yield | Net Yield | Net Yield | Net Yield | Net Yield |
|---------------------------|----------------|-----------|----------------|-----------|----------------|-----------|------------------|-----------|
| | 2016/17 | 2016/17 | 2017/18 | 2017/18 | 2018/19 | 2018/19 | 2019/20 | 2019/20 |
| | £ | % | £ | % | £ | % | £ | % |
| CCLA Property Fund | 71,438 | 1.75% | 387,626 | 9.06% | 183,140 | 4.28% | 97,298 | 2.32% |
| Schroders Bond Fund | 143,974 | 4.86% | 54,687 | 1.88% | 72,801 | 2.54% | (200,774) | -7.90% |
| UBS Multi Asset Fund | 137,159 | 4.54% | 46,243 | 1.58% | 66,832 | 2.33% | (210,235) | -8.34% |
| CCLA Diversification Fund | n/a | n/a | (16,011) | -0.83% | 127,940 | 6.45% | (111,690) | -6.19% |
| Total | 352,572 | | 472,545 | | 450,713 | | (425,401) | |

| FY Forecast at 30-Sept-20 | |
|---------------------------|-----------|
| Net Yield | Net Yield |
| 2020/21 | 2020/21 |
| £ | % |
| (118,032) | -2.74% |
| 50,716 | 1.73% |
| (86,712) | -2.93% |
| (54,460) | -2.63% |
| (208,488) | |

Peer to Peer Investment

| Funding Circle* | 2016/17 | 2016/17 | 2017/18 | 2017/18 | 2018/19 | 2018/19 | 2019/20 | 2019/20 |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|---------------|
| | £ | % | £ | % | £ | % | £ | % |
| Carrying Value | 2,003,355 | | 2,075,341 | | 2,056,664 | | 1,831,028 | |
| Interest Paid by Borrowers | 181,892 | | 181,014 | | 184,654 | | 193,170 | |
| Less FC Service fee | (19,121) | | (19,668) | | (19,729) | | (19,611) | |
| Promotions/Transfer payment | | | | | | | 470 | |
| Bad Debts | (58,163) | | (61,288) | | (111,152) | | (127,649) | |
| Recoveries | 8,219 | | 14,780 | | 27,428 | | 30,253 | |
| Amounts Recovered on principal in prior years (prior to 06.04.15) | 0 | | 0 | | | | | |
| Net Yield | 112,827 | 5.63% | 114,838 | 5.53% | 81,201 | 3.95% | 76,634 | 4.19%* |
| Provisions for future losses | 0 | | 0 | | (10,000) | | | |

| 31/08/2020 Actual | |
|-------------------|--------------|
| £ | % |
| 1,415,581 | |
| 58,059 | |
| (5,741) | |
| 0 | |
| (44,442) | |
| 11,599 | |
| 19,476 | 1.38% |