

Agenda Item	<b>14d</b>
Report No	<b>CIA/14/19</b>

## **HIGHLAND COUNCIL**

**Committee:** City of Inverness Area Committee

**Date:** 21 February 2019

**Report Title:** **Inverness Common Good Fund Investment Performance Summary Report**

**Report By:** Depute Chief Executive & Director of Corporate Resources and Inverness City Area Manager

### **1. Purpose/Executive Summary**

- 1.1 This report provides members with an overview of the performance of the Inverness Common Good Fund (ICGF) investment portfolio over the period 2015/16 – 2017/18 and clarifies the governance, management and scrutiny arrangements that are in place.

### **2. Recommendations**

- 2.1 Members are asked to:
- i. Note the contents of the report

### 3. Background

- 3.1 In order to allow for major repair and improvement works to be carried out on the assets of the ICGF an investment portfolio was established in 2002.
- 3.2 Management of the portfolio is provided by Adam & Company through a discretionary investment management agreement. Oversight is provided by the Director of Corporate Resources who acts as Principal Advisor to the Councils Investment Sub-Committee (ISC). The ISC has the responsibility for managing the sums allocated from the Inverness Common Good Fund for investment in equities and bond markets. The ISC includes representatives from the City of Inverness Area Committee, currently Provost Helen Carmichael and Cllr Carolyn Caddick.

### 4. Investment Strategy and Performance

- 4.1 The fund has an investment objective to achieve a balanced return from income and capital growth over a 10 year time horizon. The fund is invested across a range of asset classes, with the majority invested in the equity market, supplemented by fixed interest investments, together with other asset classes.
- 4.2 The portfolio is managed against a bespoke benchmark compiled to allow for greater capital preservation during the period where large sums will be required to be drawn from the portfolio to cover spend on major projects. This is illustrated in the table below and the increase in the target allocation in UK bonds.

**Table 1: Benchmark Asset Allocation**

	Pre-2014	Current Target	Actual Allocation 31/03/2018
UK Equities	52%	50%	41.94%
Overseas Equities	30%	15%	25.20%
UK Bonds	16%	30%	30.00%
Cash/Alternatives	2%	5%	2.86%

- 4.3 **Appendix 1** details the movements in the market value of the portfolio for the period 01/04/2015 – 31/03/2018. Due to the investment in ICGF Assets, the change in the market value of the portfolio over the period was a reduction of 25.42%
- 4.4 The major draw downs on the portfolio over the period covered by this report have, as members will be aware, primarily been to fund the refurbishment of the Town House as well as the refurbishment of 1-5 Church street. Significant withdrawals are still required for Phase 3 of the Town House refurbishment coupled with improvement projects for the Victorian Market.
- 4.5 Members will note that as part of the budget setting process for the ICGF they agree to maintain a minimum general reserve of £2m. In addition to this, a further £1.6m is reserved for investment in the property assets of the ICGF (Not including amounts committed for the refurbishment of Inverness Town House).

## **5. Governance and Scrutiny**

- 5.1 As detailed in the scheme of delegation the Investment Sub-committee has delegated authority to ensure the following in respect of the ICGF:
- i. That management and investment of assets complies with best practice.
  - ii. That investment of the fund complies with relevant legislation
  - iii. The delivery of the funds objectives, strategies and policies
  - iv. Appoint, dismiss and assess the performance of investment managers, custodians and other advisers involved with the management and investment of assets.
- 5.2 Through the members representing City of Inverness Area Committee sitting on this sub-committee, local scrutiny is provided on the performance of the investment managers.
- 5.3 The portfolio also benefits from the performance review and challenge from the investment adviser to the sub-committee (currently Aon Hewitt) who provide an independent expert analysis of the investment manager's performance and report this quarterly to members of the ISC.

## **6. Implications**

- 6.1 Resource: None
- 6.2 Legal: None
- 6.3 Community (Equality, Poverty and Rural): None
- 6.4 Climate Change / Carbon Clever: None
- 6.5 Risk: Operating an investment portfolio presents a risk to the funds of the Common Good Fund. Investments can rise and fall in value so the Fund Manager's take direction from the ISC on the level of risk that the Investment Portfolio should be exposed to. Recently, funds have been transferred from equity investments into bonds in order to assure the sums required to meet the costs of the Town House Refurbishment contract
- 6.6 Gaelic: None

Designation: Inverness City Area Manager

Date: 11 January 2019

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Background Papers:

## Inverness Common Good Fund Portfolio Summary

### Value of Investments

	2015/16 £	2016/17 £	2017/18 £
Opening value	9,853,587	7,207,885	7,702,221
Investment income - Dividends & Interest	251,143	189,102	147,346
Management fees	(46,123)	(37,326)	(37,928)
Liquidation to cover project spend	(2,500,000)	(800,000)	(400,000)
Reinvestment due to overpaid VAT		29,365	
Change in Market Value	(350,720)	1,113,195	(63,120)
Closing value	<u>7,207,886</u>	<u>7,702,221</u>	<u>7,348,519</u>