Common Good and Trusts Investment Sub-Committee

Committee Room 2, 5th Floor, Fife House, North Street, Glenrothes, KY7 5LT / Blended Meeting.

Friday, 23 June 2023 - 9.15 am

AGENDA

		Page Nos.
1.	**APOLOGIES FOR ABSENCE**	
2.	**DECLARATIONS OF INTEREST** – In terms of Section 5 of the Code of Conduct, members of the Committee are asked to declare any interest(s) in particular items on the agenda and the nature of the interest(s) at this stage.	
3.	**MINUTE** – Minute of the meeting of the Common Good and Trusts Investment Sub-Committee of 13 December 2023.	3
4.	**COMMON GOOD AND TRUST FUNDS** – Report by the Executive Director Finance and Corporate Services.	4 - 8

Members are reminded that should they have queries on the detail of a report they should, where possible, contact the report authors in advance of the meeting to seek clarification.

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Head of Legal and Democratic Services
Finance and Corporate Services

Fife House
North Street
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Fife, KY7 5LT

16 June 2023

If telephoning, please ask for:
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Agendas and papers for all Committee meetings can be accessed on www.fife.gov.uk/committees

BLENDED MEETING NOTICE

This is a formal meeting of the Committee and the required standards of behaviour and discussion are the same as in a face to face meeting. Unless otherwise agreed, Standing Orders will apply to the proceedings and the terms of the Councillors' Code of Conduct will apply in the normal way

For those members who have joined the meeting remotely, if they need to leave the meeting for any reason, they should use the Meeting Chat to advise of this. If a member loses their connection during the meeting, they should make every effort to rejoin the meeting but, if this is not possible, the Committee Officer will note their absence for the remainder of the meeting. If a member must leave the meeting due to a declaration of interest, they should remain out of the meeting until invited back in by the Committee Officer.

If a member wishes to ask a question, speak on any item or move a motion or amendment, they should indicate this by raising their hand at the appropriate time and will then be invited to speak. Those joining remotely should use the "Raise hand" function in Teams.

All decisions taken during this meeting, will be done so by means of a Roll Call vote.

Where items are for noting or where there has been no dissent or contrary view expressed during any debate, either verbally or by the member indicating they wish to speak, the Convener will assume the matter has been agreed.

There will be a short break in proceedings after approximately 90 minutes.

Members joining remotely are reminded to have cameras switched on during meetings and mute microphones when not speaking. During any breaks or adjournments please switch cameras off.

THE FIFE COUNCIL - COMMON GOOD AND TRUSTS INVESTMENT SUB-COMMITTEE – REMOTE MEETING

13th December, 2022 **9.15 a.m. – 9.45 a.m.**

PRESENT:	Councillors Dave Dempsey (Convener), Sean Dillon, Lynn Mowatt, Sarah Neal, Nicola Patrick, Gordon Pryde and Jonny Tepp.
ATTENDING:	Elaine Muir, Head of Finance; Laura C Robertson, Finance Operations Manager; Anne Bence, Accountant; Finance; Helena Couperwhite, Manager - Committee Services; and Wendy MacGregor, Committee Officer, Legal and Democratic Services.
APOLOGY FOR ABSENCE:	Councillor Colin Davidson.

1. DECLARATIONS OF INTEREST

No declarations of interest were submitted in terms of Standing Order No 7.1.

2. MINUTE

The Committee considered the minute of the meeting of the Common Good and Trust Investment Sub-Committee on 29th March, 2022.

Decision

The Committee agreed to approve the minute.

3. TRUST AND COMMON GOOD FUND ANNUAL REPORT 2021-22

The Committee considered a report by the Executive Director, Finance and Corporate Services updating on the market value of investments of the Common Good and Trust Funds and informing members of the investment performance over the last financial year, 2021-22.

Decision

The Committee noted the contents of the report.

23 June 2023

Agenda Item No. 4

Common Good and Trust Funds

Report by: Eileen Rowand, Executive Director of Finance and Corporate Services

Wards Affected: All

Purpose

The purpose of this report is to provide an update on the market value of investments of the Common Good and Trust Funds. This report is provided on an accrual basis and is to inform members of the investment performance over the last financial year.

Recommendation

Members are asked to note this report.

Resource Implications

None.

Legal & Risk Implications

None.

Policy & Impact Assessment

An EqIA is not required because the report does not propose a change or revision to existing policies or practices.

Consultation

N/A.

1.0 Background

1.1. Janus Henderson took over the management of the Common Good and Trust Funds investment portfolio in March 2001. As a result, £2.777m of Common Good and Trust funds were invested in the Preference & Bond Fund and the UK Equity Income Fund, with £1.725m in relation to the Fife Educational Trust Fund being invested in a separate portfolio on 8 June 2007.

1.2. The investment strategy for the Fife Educational Trust Fund and Common Good and Trust Funds is the same: to generate income whilst preserving and growing capital.

2.0 2022-23 Performance

2.1 The current valuations for these funds are shown below: -

	Common Good & Trust Funds	Fife Educational Trust Fund	Total
	£	£	£
Valuation as at 31 March 2022	5,443,411	1,817,224	7,260,635
Increase / (decrease) in year	(463,010)	(57,104)	(520,114)
Valuation as at 31 March 2023	4,980,401	1,760,120	6,740,521

Janus Henderson has provided some additional commentary on the performance of the fund, which is attached as Appendix 1

2.2 Income earned by Janus Henderson Investors up to 31 March 2023 is also shown, as is the investment Income as a percentage of the market value at the end of the financial year (i.e., the return)

	Common Good & Trust Funds	Fife Educational Trust Fund	Total
	£	£	£
Investment Income earned in year	248,535	85,958	334,493
% of Valuation as at 31 March 2023	4.99	4.88	4.96

2.3 This income is credited to the Common Good and Trust Fund revenue accounts and used to support expenditure in year.

2.4 During the year to end March 2023 the Common Good and Trust Funds have made disbursements of £248,574.06 and the Fife Educational Trust made disbursements of £62,086.

3.0 Conclusions

3.1 The market values of the Common Good and Trust Funds have deteriorated during the year and have a reduced value at 31 March 2023.

Appendix 1 – Janus Henderson Preference & Bond Fund Commentary

Report Contact
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Fife Educational Trust Scheme 1958 & Fife Common Good Fund

Commentary – 1 year to 31 March 2023

Janus Henderson UK Equity Income & Growth

In the year ending March 2023, the fund (as measured by the I Income share class) rose 1.6% on a total return basis and underperformed its FTSE All-Share Index benchmark which rose 2.9%. Over the same period the fund's IA UK Equity Income peer group fell 0.3%, which placed the fund in the second quartile.

The period was defined by inflation which has remained unexpectedly high. As 2023 has progressed, investors have become more optimistic about the economic outlook and fears of a deep recession waned. Inflation has shown signs of reaching a peak, which is buoying hopes that the rate of interest rate rises will slow in 2023. Consumer and business confidence is also beginning to improve, although both remained in negative territory amid the continued cost-of-living crisis.

The largest detractors from relative fund performance over the year were the fund's positions in insurance company Direct Line and newspaper publisher Reach. Direct Line released worse-than-expected underwriting results in January following high weather-related losses. This underperformance led the company to cancel its dividend, while the CEO also left. Reach underperformed following headwinds including a fall in advertising revenue, the shift away from promoting news links by Facebook, and cost inflation.

Conversely, the fund's holdings in Euromoney and Devro were beneficial to performance during the period after both companies were taken over at significant premiums. Contracting company Balfour Beatty was also beneficial following its announcement of strong results.

During the period we initiated a position in building materials company Marshalls, which makes paving stones for commercial and residential use. Its share price had fallen substantially, leaving the shares on a lower-than-historic average valuation due to concerns that consumers will spend less on repair and maintenance for their homes, at a time when disposable incomes are under pressure. While these concerns are legitimate, Marshalls also has material exposure to commercial spend on infrastructure. In our view, this could prove more resilient.

Elsewhere, we reduced positions in companies which have performed well and were trading on high valuations relative to history. These included Relx and Severn Trent. We switched into companies where share prices have looked weak and in our view valuations were already to some extent reflecting an earnings retrenchment. These included textile rental company Johnson Service Group and brick manufacturer Ibstock.

Increasingly, the view seems to be that any economic slowdown may not be as large as originally predicted. Consumer spending figures have not been falling and manufacturing output is showing resilience. Overall, the result season has been decent with beats and misses against earnings forecasts being broadly spread. However, earnings misses have usually been the result of costs being higher than anticipated. We are now seeing evidence that the cost line is under control, with areas such as shipping rates falling. If this continues then there could be some earning upgrades, with operating margins expanding as a result of small increases to top line growth and costs controlled.

Janus Henderson Fixed Interest Monthly Income Fund

Over the period the fund fell 11.0% based on the I income (net) share class while the IA Sterling Strategic Bond Sector peer group benchmark fell 6.2%.

Financial markets performed poorly during the reporting year as they endured considerable volatility. The biggest driver of this weak performance was much stronger-than-expected inflation, which hit multi-decade highs and led central banks to embark on their most aggressive monetary tightening cycle. In addition, Russia's invasion of Ukraine, which started shortly before the period under review began, had some profound macroeconomic implications, given both countries' importance in commodity markets – notably energy and food.

There was already an issue with inflation caused by the monetary and fiscal stimulus from COVID-19, although the rise in commodity prices caused a fresh dilemma for central banks. They cannot solve supply shocks through monetary policy, although they became increasingly concerned that with these twin shocks, inflation would become entrenched in the economy. We had forecast a growth slowdown using our macroeconomic models coming into last summer, that would bring down inflation. However, we then faced a stagflationary shock in the global economy (slower growth with high inflation). With interest rates at restrictive levels, the chance of a financial accident has increased and in March 2023 we saw the collapse of Silicon Valley Bank and Signature Bank, and growing concerns over Credit Suisse (leading to it being acquired by UBS). The lagged impact of interest rate hikes are now being felt and the immediate battle in the US is no longer inflation – which we (and the wider consensus) think will cool through 2023 – but the weak growth outlook and tightening of financial conditions.

Over the period, we had a more cautious view on credit and reallocated away from high yield corporate bonds into investment grade bonds, as the lagged impact of monetary tightening would feed into the economy. We increased the fund's duration (interest rate sensitivity) too early, which cost us in terms of performance over the period. However, as the year progressed, the impact of rate hikes started to feed through to the real economy. In the fourth quarter of 2022, the US saw an outright contraction in company earnings on a year-on-year basis. We thought patience was required, to let the economic cycle and monetary tightening do their work, as we started to see their effects filter through.

While the fund's credit book outperformed its benchmark, its higher interest rate sensitivity (duration) detracted. In terms of individual contributors, we saw positive performance from some high-yield holdings and new issue purchases we made following the September UK gilt crisis. The largest individual detractors were subordinated financial bonds.

Default rates were low, at 0.4% in Europe and 2.1% in US high-yield bonds. We expect that with tighter financial conditions and headwinds to corporate fundamentals, defaults will rise in the next year. However, when we look at bottom-up forecasts, they do not seem to suggest a spike.

We increased the fund's investment grade bond exposure over the period, by rotating out of high yield corporate bonds, secured loans and subordinated financials, which made the fund more defensive. In our view, the risk premium seemed low when we looked at spreads and we thought it needed to widen out given the uncertainties. We believe that inflation has peaked, and we expect this to lead to a slowing of interest rate hikes and lower interest rate volatility. However, we feel the likelihood of an economic 'hard landing' is still there. Therefore, we maintain a more defensive stance, tilted slightly in favour of investment grade corporate bonds over high yield bonds and loans, to manage these risks. We also increased the fund's duration to 8.74 years by the end of the period.

Our focus on providing a relatively consistent and attractive income stream to investors means that the fund's investments are naturally skewed to lower-rated and riskier corporate bonds. We will continue with our investment philosophy of sensible and sustainable income by looking to invest in companies with a reason to exist. We continue to think this is the best strategy for our investors.