

ISLE OF ANGLESEY CHARITABLE TRUST
INVESTMENT AND CONTRACTS COMMITTEE

Minutes of the meeting held on 14 December, 2010

- PRESENT:** Mr. E.G. Davies - Vice-Chairman in the Chair
- Messrs. H. Eifion Jones, R. Dylan Jones, Bob Parry OBE,
G.W. Roberts OBE, Elwyn Schofield.
- HSBC Global Asset Management (UK) Limited**
- Mr. Gareth Watts - Client Director,
Mr. Marcus Pakenham.
- IN ATTENDANCE:** Treasurer,
Committee Officer (MEH).
- APOLOGIES:** Messrs. Aled Morris Jones, J.V. Owen

1 DECLARATION OF INTEREST

The Treasurer declared an interest in Item 4 and remained in the meeting during discussion thereon. No other declaration of interest was received by any Member or Officer regarding any item on the Agenda.

2 MINUTES

The minutes of the meeting held on 17 September, 2010 were confirmed as a true record.

Arising Thereon

Mr. G.W. Roberts OBE ascertained if the Trust were in consultation with the proposed developers of Wylfa 'B' in respect of the Rhosgoch land and the future use of the land. The Treasurer responded that the Committee has delegated the sale of the land to the Economic Development Department together with the Property Section of the County Council. Mr. Roberts recommended that this Committee should approach these departments to establish if negotiations are taking place in respect of Rhosgoch site; this land could be used for a transitional camp with the possibility of leisure/tourism use in the future. He noted that such a facility could create much needed employment for the vicinity for years.

RESOLVED to write to both the Economic Development and Property Departments of the County Council to ascertain the progress of negotiations with the proposed developers of Wylfa 'B' in respect of the future use of Rhosgoch land and that a meeting of this Committee be arranged as soon as possible to discuss the issue.

3 INVESTMENT MANAGEMENT

Submitted - the HSBC Global Asset Management (UK) Limited Quarterly Report for the period up to the end of September 2010.

The Investment Management reported that equity market has performed well over the year with the US equity market returning 13.4%. The portfolio showed a return of +10.9%, benchmark of +11.1%. The closing value of the fund on 30 September, 2010 was £13,424,773. The value of the fund on 14 December, 2010 was £14,219,000.

Mr. Gareth Watts, Client Director reported that consumer spending is subdued at present due to the lack of confidence and high borrowing and high unemployment likely to continue. There are also continued fears regarding the debt of European countries notably Greece and Ireland.

Mr. Marcus Pakenham noted that companies around the World are in a good position at present due to modest sales increase and as interest rates are low they are managing to repay debts, as debt becomes due, they are renewing it at low interest rates, and their financial costs are falling. It was also reported that equity, bonds and gilt yields are performing well despite the recent financial crisis.

Mr. E. Schofield was pleased to see that the income from the portfolio was over £400k which will allow for the distribution of Charitable Trust grants to the various organisations as planned. However, he raised the issue of the cash available in the portfolio of the Trust by the Investment Management and the bank account held by the Trust itself and questioned if it was additional to the revenue noted in the Quarterly Report. The Treasurer responded that the Trust has cash demands locally to pay grants etc., and on some occasions the Trust might ask the Investment Managers for extra cash as well. He noted that the Annual Report submitted to the Charitable Trust notes the whole of the cash available to the Trust.

RESOLVED to accept the report.

4 REVIEW OF BENCHMARK

(The Treasurer declared that he is, in his own personal capacity, a member of the Investment Sub-Committee of the Royal Statistical Society and the Society has an investment in the Charities Property Fund mentioned within this report)

Submitted - a report by the Treasurer following this committee's suggestion that it reviews the investment asset allocation and benchmark.

The Treasurer reported that overall asset allocation of investments reflects a judgement as to the balance of assets most likely to fulfill the long-term objectives of the charity, having regard to rate of return, income requirement and risk appetite. It is appropriate that this asset allocation is reviewed every few years. The benchmark takes the central weighting of the asset allocation, and uses this to weight the index returns for each market, giving a benchmark rate of return. The investment manager's performance is then measured against this benchmark rate of return. It also features in the calculation of the performance related element of the investment management fee.

The investment managers are allowed flexibility to vary asset allocation within agreed ranges; this allows flexibility for market fluctuation and an opportunity for tactical variation. The benchmark was last changed as part of the investment management review in 2006/07, and changes were relatively minor in terms of the overall split between equities and fixed interest, the main change being the introduction of exposure to Global Emerging Markets for the first time. In the period since 1 April, 2007 the rate of return of the new benchmark has exceeded the rate of return of the old benchmark by 0.9% which suggests that the judgement in 2007 was sound.

Recent discussions have focused on achieving greater diversification through adding other asset classes. Diversification may not increase returns, but helps to spread risk so that either risk is reduced at the same level of return, or targeted returns may be increased at the same level of risk. Investment in 'alternative' assets has increased significantly over recent years by both charities and pension funds.

'Alternative' investments include investing in Hedge Funds, Private Equity, Currencies and Commodities. The Charitable Trust has sought to invest in more straightforward income generating real assets. Many alternative assets offer little yield. Discussions with the investment managers has therefore focused on diversifying a small amount of the portfolio into three asset classes :-

Property

Property, an Alternative investment, is a real asset which generates economic returns through receipt of rents and capital growth, but it can be volatile and investment in individual properties would be risky. Exposure is recommended through a pooled fund, specifically the Common Investment Fund for Charities. This would itself be a registered charity and is open only to charity investors, meaning that it can take advantage of stamp duty and other reliefs available to charities. The yield on this fund is 6.8% which would be of benefit to the Trust in terms of income generation.

Infrastructure

These funds, another Alternative investment, primarily invest in infrastructure projects, providing the private finance for what are to the public sector Private Finance Initiative schemes. Being in the main long term projects, these have a rate of return in which there can be considerable assurance. Again, investment would be in a pooled fund with a portfolio of investments of different infrastructure assets. The yield would be expected to be in excess of 5%.

Global Emerging Market Debt

Considerable investment has been made over recent years into Emerging Markets (EM) and these economies are expected to continue to grow ahead of the economies of the developed world. As these economies expand, governments and corporations will look and international markets to finance growth. The Trust has already benefited from its investment in EM equities over recent years and a further allocation would appear attractive. EM equities, tend to pay little in terms of dividends. As part of any additional exposure to this area it is suggested that investment in EM debt which have attractive yields. Over the past decade, the EM debt universe has grown to over US\$8 trillion. EM debt would be part of the Trust's Fixed Interest allocation and would be expected over time to produce superior but more volatile returns than other fixed interest holdings.

Following discussion with the Investment Management and subsequently with the Chair and Vice-Chair of the Committee, it was suggested that the three potential 'Alternative' investments to the Committee is as follows :-

Charities Property Fund
HSBC Infrastructure Company Limited (HICL)
HSBC GIF Global Emerging Markets Bond
(Factsheets of the above funds were distributed at the meeting)

The Treasurer suggested that a small allocation of 2% of the benchmark for each of the funds be shifted into the above asset classes, to be taken from UK Equities. The overall effect is expected to be neutral in relation to fees paid which is beneficial in terms of expected income yields and spreads investment over more diverse assets. He further reported that the Investment Management have also suggested that a further 1% be invested in the emerging markets from UK Equities. Members of the Committee were supportive of the 2% of the benchmark for each of the three funds mentioned above but were concerned that a further 1% was considered towards emerging markets.

RESOLVED

- **to accept the report and to agree to change the benchmark of the portfolio and that 2% of the asset allocation be earmarked for each of the asset classes, with investments to be made in the funds noted above, the allocation being taken from the UK Equities as part of the benchmark.**
- **that the aim is to start the investment from the 1st January, 2011 in consultation with the Investment Manager together with the Chair and Vice-Chair of the Committee in respect of the ranges of the figure in relation to this particular funds.**

MR. E.G. DAVIES
VICE-CHAIRMAN IN THE CHAIR