hpc health professions council

Finance and Resources Committee Meeting – 17 November 2008

INVESTMENT UPDATE REPORT

Executive summary and recommendations

Introduction

In the Investment Policy, Section 5, the professional fund manager (Rensburg Sheppards Investment Management Ltd) is invited to provide a summary report of fund performance and address any questions that the Committee may have relating to the funds under professional management.

Decision

The Committee is requested to note the Rensburg Sheppards report and approve the continued appointment of the professional fund manager, as appropriate.

Background information

The Rensburg Sheppards funds managed achieved an annual return of -15.5% for the 12 months ending September 2008. This compares with a 9.4% for the 12 months ending September 2007. Rensburg Sheppards cited the benchmark[1] performance for the annual period ending September 2008 as a -13.5% return. The main areas where the portfolio performed worse than the index were in UK Fixed Interest, European and Japanese equities. Refer Appendices One, Two and Three for more details. The change in market value of the portfolio over time is shown in Appendix Four.

The investment strategy requires that "the portfolio to be managed in a way that will balance immediate income with long term capital appreciation" in accordance with HPC's Investment Policy document. The Finance & Resources Committee confirmed that the portfolio should remain positioned on "the lower risk side of neutral." In February 2008, the Finance & Resources Committee extended the ethical restrictions on the managed funds to include a ban on investments in alcohol production and gambling, as well as tobacco.

Resource implications

Nil

[1] A weighted average of the comparable index returns over the period.

Financial implications
Rensburg Sheppards charge a flat fee and transaction charges equating to about 0.5% of the funds managed (£8.4k) as commission.

Appendices
Appendix One - Rensburg Sheppards Performance Summary
Appendix Two - Rensburg Sheppards letter dated 14 October 2008
Appendix Three - Rensburg Sheppards letter dated 10 October 2008
Appendix Four – Portfolio Investment Value

Date of paper
5 November 2008

As at 30th September 2008

TOTAL RETURN PERFORMANCE SUMMARY

ASSET ALLOCATION %	SECTOR	3 MONTHS 30/06/08 - 30/09/08 FUND %	3 MONTHS 30/06/08 - 30/09/08 INDICES %	12 MONTHS 28/09/07 - 30/09/08 FUND %	12 MONTHS 28/09/07 - 30/09/08 INDICES %	
7.7	UK Gilts	3.9	4.7	6.4	6.8	FTA Brit Govt Fixed All Stocks
12.1	Other UK Fixed Interest	-6.2	-1.4	-13.3	-2.5	Merrill Lynch £ Non-Gilts All Stocks
19.8	Total UK Fixed Interest	-2.6	4.7	-7.0	6.8	FTA Brit Govt Fixed All Stocks
49.9	UK Equities	-9.8	-12.2	-21.0	-22.3	FTSE All Share
			-12.0		-21.2	FTSE 100
7.8	USA	-3.0	2.3	-9.4	-10.8	S & P 500 Composite
4.7	Europe	-17.4	-11.2	-26.7	-19.7	FTSE World Europe Excl UK
2.5	Japan	-5.1	-7.4	-25.4	-15.1	TOPIX
1.8	Other Pacific Basins	-17.6	-16.3	-27.3	-27.1	FTSE World Asia Pacific Excl Japan
0.3	Emerging Markets	-25.2	-18.3	N/A	-23.4	MSCI Emerging Markets
2.4	International Equities	-10.6	-5.3	-11.8	-14.5	FTSE World Excl UK
19.5	Total Overseas Equities	-9.8	-5.3	-18.0	-14.5	FTSE World Excl UK
10.9	Cash	0.8	1.1	4.5	4.8	BoE Base Rate (-0.5%)
100.0	TOTAL ASSETS	-7.3	-6.8	-15.5	-13.5	Bespoke

Performance figures are calculated gross of fees but net of any transaction expenses, if applicable.

Rensburg
Sheppards

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Our Ref : JM/VM/COUNC0004

14th October 2008

Charlotte Milner
Health Professions Council
Park House
184 Kennington Park Road
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SE11 4BU

Dear Ms Milner

Health Professions Council

Please find enclosed your quarterly valuation for the period 1 July to 30 September 2008. I write in James Minett's absence while he recovers from his recent accident. I am pleased to inform you that James has left hospital and I am sure you will join us in wishing him a speedy recovery.

Turning to the markets, we have, over the last quarter witnessed arguably the most turbulent financial crisis in modern times in terms of the number and scale of financial companies that have been either nationalised, bankrupted or taken over. Indeed, September 2008 will merit a chapter in the history books of financial markets owing to the massive state intervention employed (in the home of capitalism) to stabilise the US financial system.

In no particular order, the Federal reserve, chaired by 'Hank' Paulson has bailed out the two state sponsored entities responsible for underwriting most US mortgages (Fannie Mae and Freddie Mac), taken over AIG, let Lehman Brothers and Washington Mutual (the largest ever bank failure) go bankrupt and orchestrated a merger of Merrill Lynch by Bank of America. Over on this side of the Atlantic, the UK government has nationalised Bradford and Bingley and allowed a merger of HBOS with Lloyds TSB, pushing competition rules aside, in favour of letting HBOS go bankrupt. This is not pleasant reading.

The issues above, are now starting to creep, rather rapidly into the European arena. Fortis had to be rescued by not just one country, but by three, beginning to question the argument "when does a bank too big to fail become too big to rescue". This argument was pushed to extreme levels by the nationalisation of Glitnir, Iceland's third biggest bank and, with the knock-on effects only starting to become apparent, we may see more banks running 'cap in hand' to their governments, as lenders of last resort.

All is not lost though, as Central banks in Europe are starting to work together, albeit without actually agreeing to work together, firstly, with the Irish Authorities quickly followed by Greece and now Germany guaranteeing deposits. Markets are still uncertain whether this is a good sign or not.

What we, as investment managers, have to do in light of the turmoil that is affecting world markets is pick future winners, for every bear market is tomorrows bull market. While it is obvious that banks will have to recapitalise themselves to shore up their balance sheets, we try to find those companies that have net cash on their balance sheet, have excellent free cash flows (the money that the company earns after paying all costs) and are profitable. The market has forgotten that if a company is profitable, even if small, this profit adds to the equity in the company, increasing its net worth. Quoting Warren Buffett, "Be fearful when others are greedy, and be greedy when others are fearful" is very poignant at this time.

Turning to your portfolio, as at 30 September the value was £1,672,078, a fall of £147,341. Dividends that have accrued on the portfolio total £15,954. On a total return basis the portfolio fell by -7.3% verse the bespoke index which returned -6.8%.

The fixed interest proportion registered a return of –2.6% versus the benchmark, the FT Government All Stocks, which rose 4.7%. The strong rise in the benchmark is highlighted by the surge in demand for government backed Gilts as the 'flight to quality' and safety took hold. Corporate bonds and in particular banking bonds have suffered over the period as investors have fled to the safe haven of government backed bonds. This we feel is over done with some corporate bonds starting to look good value.

The UK equity component of the portfolio returned –9.8% versus the FTSE 100 of –12.2%. The outperformance has been due to a relative underweight position in the basic materials, oil and gas and consumer goods sectors, which registered large falls as investors began to digest consequences of a recession in the wider economy. With overweight positions in Industrials, Telecommunications and Utilities the portfolio is in an ideal position to weather the current financial climate, ensuring a defensive position with companies that have strong balance sheets and good free cash flow.

The overseas equity component of the portfolio returned -9.8% underperforming the index, the FTSE World Ex UK, which fell –5.3%. The large relative weighting in the US component of the overseas equity contributed to this fall, as these investments returned -3.0% verses the index, the S&P500, which rose 2.3%.

Transactions throughout the period:
During the period we acquired UK Gilt 4.75% 2020 reinvesting the proceeds of the UK Gilt 5.5% 2008 which matured in September.
Within equities we acquired TR Property Trust (the international property trust), Experian, BHP Billiton and JPMorgan Smaller Companies Investment Trust (increasing exposure to the smaller capitalised market). Within UK equities we sold the small position in Rolls Royce "B" Shares and redeemed the United Utilities 'G' Shares.

We sold the trusts investment in JPMorgan Investment Trust and reinvested the proceeds into Polar Capital Japan Fund. We favour Japan noting that the Japanese have somewhat 'escaped' the current crisis and are starting to buy up distressed assets from the US and UK. Recently, Nomura, the Japanese investment bank, has taken over Lehman brothers operations in the UK making it the largest independent investment bank in the world. In addition to this, Japans megabank, Mitsubishi UFJ Financial Group, has agreed to press on with the purchase of 21% in Morgan Stanley, after assurances from the US government that Morgan Stanley has full protection from the authorities against going bust. We may see more companies emerging from Japan that have strong balance sheets and the fire power picking up distressed assets from western economies.

The last purchase over the period was one of cash management, in that we acquired a position in the Goldman Sachs Sterling Liquid Reserve Fund. This fund is valued at over £4bln, making it one of the largest and most liquid money market funds of its type in the world. The fund pays interest of 5.36% and offers daily liquidity.

Finally we trimmed the holding in Black World Mining reducing our exposure to the mining sector.

Looking ahead inflation remains a problem as does rising unemployment and irrespective of the resolution of the mortgage mayhem in the USA and global reverberations the outlook for stock markets looks poor. Having said that we would expect to take advantage of market weakness in specific shares to add to positions for the recovery when it comes. We have seen a global coordinated interest rate cut and should expect further easing in the UK and also in the USA, although one wonders as to the help a reduction from a lowly 1.5% in the USA might bring.

Finally in James' absence should you have any queries relating to the markets or your portfolio please do not hesitate to contact me.

Yours sincerely

Elliot Bancroft
Associate Investment Director

Encl.

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10th October 2008

Charlotte Milner
Health Professions Council
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Dear Ms Milner

Health Professions Council

Equity markets are continuing to fall and it is understandable that some clients are expressing concern for the value of their portfolios with us. We are sensitive to these concerns, but just as most of our clients are investing for the long term, so we also have to try to look through the collective loss of confidence which predominates at the moment. The long term strategies which we have recommended to our clients are based on historical data going back several decades and it is important not to lose sight of these at times of short term dislocation.

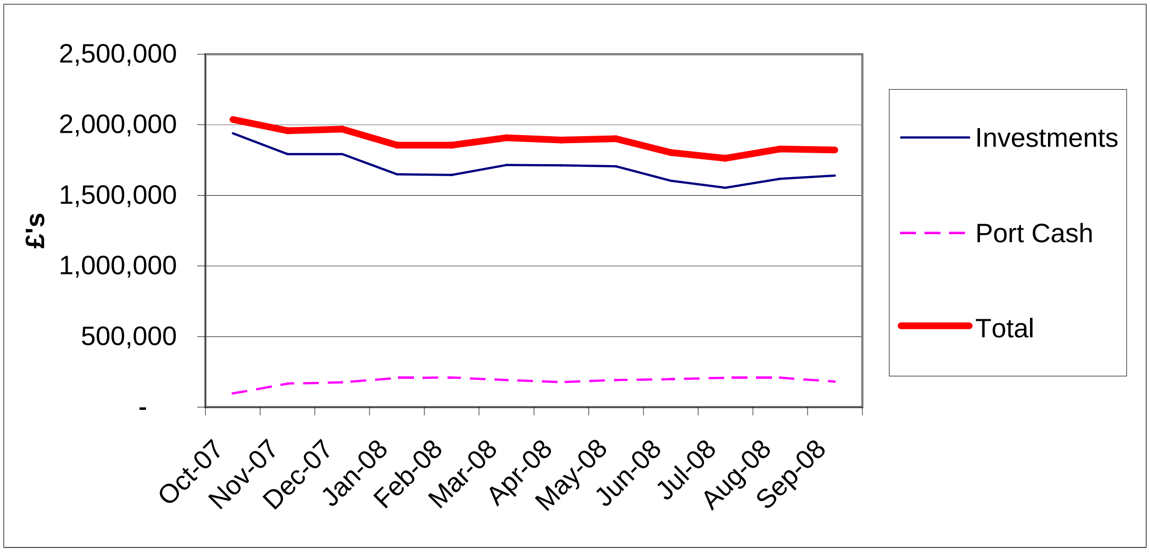
We are much reassured by the collective and coordinated actions being taken by governments and monetary authorities around the world and believe that these are evidence that they will indeed do "whatever it takes" to restore stability. This will take time and we may see further weakness but ultimately we believe that equilibrium can be regained and that the global financial system will be re-established on a firmer footing.

We have also received a number of enquiries from our clients as to which banks we use to deposit cash held as part of investment portfolios. In determining which banks to deal with our Cash & Credit Management Committee carry out a stringent vetting process. All banks much have a minimum Fitch IBCA short term rating of Fl+, an individual rating of B or better and a support rating where there is a high probability of external support from a highly rated central bank or institution. There are currently eight banks which are approved for use, with no more than 25% to be held with at any one. There are no Icelandic banks on the approved list.

Yours sincerely

Elliot Bancroft
Associate Investment Director

Appendix Four - Portfolio Investment Value (Market Value)



	Investments	Port Cash	Total	Cash proportion
Oct-07	1,939,066	97,049	2,036,115	5.0%
Nov-07	1,791,635	166,997	1,958,632	9.3%
Dec-07	1,793,301	176,724	1,970,025	9.9%
Jan-08	1,649,116	207,713	1,856,829	12.6%
Feb-08	1,644,601	210,297	1,854,898	12.8%
Mar-08	1,714,820	192,024	1,906,844	11.2%
Apr-08	1,711,942	179,277	1,891,219	10.5%
May-08	1,706,931	193,029	1,899,960	11.3%
Jun-08	1,603,955	200,508	1,804,463	12.5%
Jul-08	1,554,266	209,304	1,763,570	13.5%
Aug-08	1,617,857	211,089	1,828,946	13.0%
Sep-08	1,639,855	182,219	1,822,074	11.1%