

Report for: Decision
Item Number: 3



Contains Confidential or Exempt Information	No – Part I
Title	Kidwells Park Trust – Investment of Capital Funds
Responsible Officer(s)	Andrew Brooker, Head of Finance, 01628 796341
Contact officer, job title and phone number	Richard Bunn, Chief Accountant, 01628 796510
Member reporting	Cllr Dudley, Lead Member for Finance
For Consideration By	Council sitting as the Trustees of the Kidwells Park Trust
Date to be Considered	29 April 2014
Implementation Date if Not Called In	29 April 2014
Affected Wards	“All”
Keywords/Index	Kidwells Park Trust
Report Summary	
<ol style="list-style-type: none"> 1. This report makes recommendations about the investment of the capital funds available to Kidwells Park Trust 2. The purpose of the investment is threefold: <ul style="list-style-type: none"> To make an investment that protects the long term interest of the Trust; To provide a return on the investment that can be used to promote the purposes of the Trust; To provide capital growth to protect the value of the return in the longer term. 	

If recommendations are adopted, how will residents benefit?	
Benefits to residents and reasons why they will benefit	Dates by which they can expect to notice a difference
1. The investment will generate a revenue contribution towards the provision of facilities for recreation and other leisure time occupations in the interests of social welfare for the benefit of the residents of the Royal Borough of Windsor and Maidenhead	31 March 2015

1. Details of Recommendations

RECOMMENDED: That the Kidwells Park Trust funds be invested in Legal & General Distribution Trust

2. Reason for Decision and Options Considered

The Kidwells Park Trust is a registered charity and Council acts as Managing Trustee with the agreement of the Charity Commissioners. The purpose of the Charity is to assist in providing facilities for recreation and other leisure time occupations in the interests of social welfare for the benefit of the inhabitants of the Royal Borough of Windsor and Maidenhead. This is achieved through grants awarded by the trust aimed at increasing cultural activity and targeting facilities or events that would not normally be provided without such assistance.

The capital associated with the charity (approximately £380k) is in the form of cash and deposits managed by The Royal Borough of Windsor and Maidenhead as part of the treasury management function. The total of this cash and deposits at the 31st March 2013 totalled £386,116 and it is recommended that £300,000 is invested in order that sufficient cash funds remain for existing grants awarded. The intention is that future grants will be funded by the income generated by the investment.

Members of the Council, as managing trustees, have a fiduciary responsibility to manage this capital so that it generates a revenue stream to finance the charities activities.

The Legal and General Distribution Trust has been identified as the recommended investment. This fund is on the current lending list and has met the similar requirements of another trust, the Working Boys Club.

Diversification is an important consideration for Trustees. This can be achieved either by investing in a number of funds or in a fund with diverse investments. The Legal and General Distribution Trust holds 37% of its capital in UK Equities spread across Telecomms, Healthcare, Financial Services (largest holding), Consumer Goods, Energy and Utilities. 49% of the capital is in Bonds. Morningstar, a leading research company, categorises the Fund as “Sterling Cautious Allocation” which seems appropriate for an investment of this kind.

Clearly there is no guarantee with any investment but the fund is currently producing a distribution yield (net of charges) of 4.1% which would generate an income of £12k pa which would be sufficient to fund grants and for building maintenance. As 37% of the fund is invested in equities over the longer term there is a reasonable expectation that the Fund would see the modest capital growth necessary to protect real term value of the income stream.

Option	Comments
1. Do nothing	Effectively means that funds would be managed as part of the Council's cash balances and would receive whatever return that the Council earns on those balances.
2. Ask officers to explore a range of investments to further diversify investment	Could be a safer option in terms of protecting the capital
3. Accept this recommendation	Viewed as being the option which offers a balance between option 1 and option 2 without incurring onerous management costs

3. Key Implications

Defined Outcomes	Unmet	Met	Exceeded	Significantly Exceeded	Date they should be delivered
To invest capital funds held by Kidwells Park Trust and achieve a sufficient return to fund grants awarded and maintenance costs with some capital growth.	Loss of capital and return below the return on Council's cash balances	Secure a return necessary to meet the demands of grants issued and maintenance costs with no loss of capital	Secure a return greater than the demands of grants issued and maintenance costs with no loss of capital	Secure a return greater than the demands of grants issued and maintenance costs with capital growth	31 March 2015

4. Financial Details

Option 1 Do Nothing: In the short term, given current interest rates this would provide minimal income. This approach would not generate any capital growth unless some of the interest earned was reinvested. This option is unlikely to consistently deliver sufficient revenue to fulfil the requirements of the Trust over the medium term.

Option 2 Explore a range of investments: Likely to increase revenue stream but will impact on the cost of managing the investment.

Option 3 Invest in the Legal and General Distribution Trust: Offers opportunity to deliver sufficient revenue to meet the requirements of the trust

whilst delivering modest capital growth to protect its long term interest as detailed in the fund objectives shown in the Fund Factsheet (Appendix A).

5. Legal

In producing and reviewing this report the Council is meeting legal obligations to manage the funds of Kidwells Park Trust.

6. Value for Money

This recommendation ensures that the Trust's funds are invested for the highest economy, efficiency and effectiveness whilst being mindful of the risks associated with any investment.

7. Sustainability Impact Appraisal

No impact on sustainability objectives.

8. Risk Management

As with any "non-cash" investment there is the risk that the capital value and the income from the investment will fall, however, given the wide spread of investments within the L&G Distribution Trust it is most unlikely that the investment's entire value (and hence income) would be lost. Nevertheless Council acting as the charity's Trustees should be aware that there is always the possibility that both the capital value of and the income received from the investment may fall which may impair the charity's ability to fund its activities from its own resources.

9. Links to Strategic Objectives

Residents can be assured that the Council is providing value for money by delivering economic services.

10. Equalities, Human Rights and Community Cohesion

This report does not recommend any actions related to staff or service provision. An Equality Impact Assessment (EQIA) has not, therefore, been completed for the production of this report. An EQIA would be required should this report generate any changes to policy or service delivery.

11. Staffing/Workforce and Accommodation implications:

None.

12. Property and Assets implications:

The recommendation to invest in Legal & General Distribution Trust will be undertaken by the Council's Treasury Management function.

13. Any other implications:

None.

14. Consultation
Not applicable

15. Timetable for Implementation
Not applicable

16. Appendices

Appendix A – L&G Distribution Trust Factsheet

17. Background Information
None

18. Consultation (Mandatory)

Name of consultee	Post held and Department	Date sent	Date received	See comments in paragraph:
Internal				
Corporate Management Team (CMT)	Managing Director, Strategic Directors, Heads of Legal Services and Policy & Performance.	2-April 2014		
Cllr Dudley	Lead Member for Finance	2- April 2014		
Cllr Burbage	Leader of the Council	3-April 2014		
External				
None				

19. Report History

Decision type:	Urgency item?
Not key decision	No

Full name of report author	Job title	Full contact no:
Richard Bunn	Chief Accountant	01628 796510

LEGAL & GENERAL DISTRIBUTION TRUST.

FUND FACTS

Product(s)	Unit Trust/ISA
Launch date	28 November 2003
Fund size	£43.3 million
Number of holdings	63
Initial charge	5.00%
Annual Management Charge (AMC)	1.25%
Ongoing Charge (Includes AMC)	1.46%
Performance fee	No
Distribution yield (net of charges, gross of tax)	3.80%
Underlying yield (net of charges, gross of tax)	3.20%

USING THIS FUND FACTSHEET

When you invest in a unit trust or ISA, your money buys units in one or more funds. These funds pool together money from other investors and a fund manager uses this money to invest in a number of different investments. This **Fund Factsheet** gives you detailed information about a particular fund to help you decide if it's right for you. It's important that you read this together with the appropriate **Key Investor Information/Simplified Prospectus** before investing in the plan.

If you're not sure what a word in the **Fund Factsheet** means, please turn to the glossary on page 5.

FUND MANAGEMENT COMPANY

This is basic background information about the company whose fund manager selects the investments that make up the fund.

LEGAL & GENERAL

Legal & General Investment Management (LGIM) is one of Europe's largest institutional asset managers and a major global investor. Throughout the past 40 years they have built their business through understanding what matters most to their clients and transforming this insight into valuable, accessible investment products and solutions. They provide investment expertise across a full spectrum of asset classes including equities, fixed income, commercial property and cash.

FUND MANAGER

The fund manager is professionally qualified to manage funds. It's their job to seek out the best investment opportunities, based on the fund's aim. They often have access to a team of experts to help them decide where to invest.

KEVIN CHESSUM



Kevin Chessum is an Associate Director of LGIM, responsible for managing asset allocation positions across a broad set of diversified funds. He joined LGIM in November 1982 from Warwick University, and initially analysed individual companies and sectors within the UK Equity market. He progressed to become a UK Equity fund manager and then, early in 2002, onto managing asset allocation portfolios. He is currently responsible for managing a set of portfolios that invest in a wide range of asset classes including UK and overseas equities, fixed interest, and cash.

FUND OBJECTIVE

This is a general description of what the fund aims to achieve, as stated by the fund management company. For a detailed description of what the fund invests in, please see the fund characteristics on page 2.

To provide both income and long-term growth by investing in a diversified portfolio of bonds, equities and other assets. These may be selected from all economic areas. The manager may invest in other funds to obtain a diversified investment in some asset classes.

IMA SECTOR

This is the IMA sector the fund falls into. IMA sectors are defined by the Investment Management Association (IMA). The sectors are a way of grouping funds with similar characteristics, so they're easier to compare.

IMA MIXED INVT 20-60% SHARES

Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and Government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

- Maximum 60% equity exposure (including convertibles)
- Minimum 20% equity exposure
- Minimum 30% fixed income and cash
- Minimum 60% investment in established market currencies (US Dollar, Sterling & Euro) of which 30% must be Sterling
- Sterling requirement includes assets hedged back to Sterling

FUND CHARACTERISTICS

This fund is overseen by an experienced fund manager who makes informed decisions on where to invest your money. The fund manager constantly monitors companies, economic conditions and markets to select and change a portfolio of investments that offers the best opportunities to meet the fund's aim. The fund invests in a mixture of investments such as equities, property, bonds and cash to help spread risk.

The fund generally invests in the following:

Equities. To provide the potential for overall returns the fund invests in equities, also known as company shares. This is achieved by receiving a share of companies' profits as dividends, and benefiting from increases in share prices. Equities generally have a higher potential for returns than other investments, which also means a higher risk of loss especially in the short term. It's worth noting that if the shares in the companies chosen perform worse than expected or a major event impacts the shares, the returns on your investment could fall.

Bonds. To provide the potential for overall returns the fund invests in bonds, also known as fixed interest securities. This is achieved by receiving regular interest on loans to companies or governments. There is a chance the bond issuer could fall into financial difficulty and will not be able to pay the interest or the loan back, which could result in a fall in your investment returns. Bonds can also be sensitive to trends in interest rate movements and if interest rates go up, the returns on your investment are likely to fall as bonds can become less attractive. On the other hand, if interest rates fall, bonds are likely to become more attractive and your investment returns increase.

Some specific characteristics of the assets held in this fund include:

High yield bonds. The fund invests in riskier bonds, known as sub-investment grade bonds. These bonds pay higher interest rates, to try to provide more attractive income returns. To achieve this, greater risk is taken as the companies are more likely to miss payments or not repay the loan, resulting in the returns on your investment falling.

FUND PERFORMANCE AS AT 31 DECEMBER 2013

The graph opposite shows how the fund has performed over the last five years (or since the fund launched) compared with the fund's IMA sector average. The first table shows the total percentage change, over one, three and five years. The second table shows performance for 12-month periods over the last five years, to the end of the last quarter.

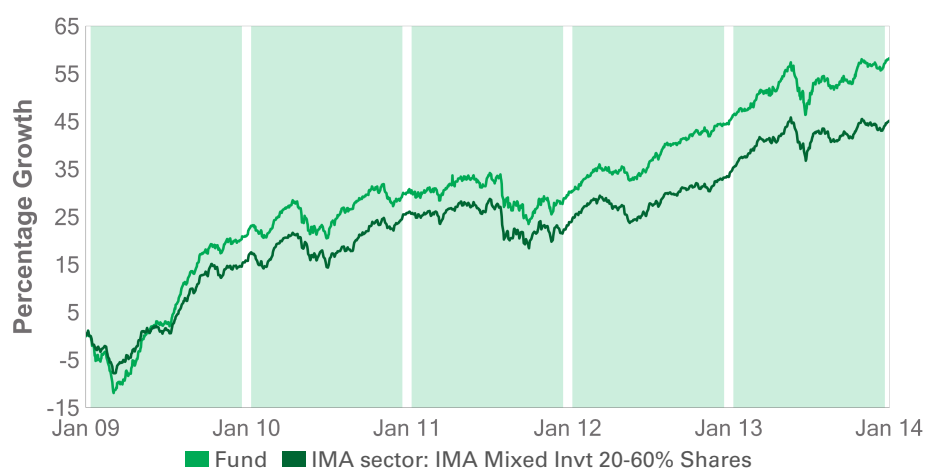
NOTES: Please bear in mind that past performance is not a guide to future returns. The value of your investment and any income taken from it is not guaranteed and may go up and down. You could get less than you invest.

The performance provided for the fund:

- Is after all fund charges have been taken, excluding the initial charge, and
- assumes all income generated by the investments, after deduction of tax, remains in the fund.

Also:

- The sector values are based on the selling price of units or shares published by all the funds in that IMA sector.



	1 year	3 years	5 years
Fund	9.54	21.62	58.76
IMA sector	8.83	15.37	45.16

ANNUAL FUND PERFORMANCE TO LAST QUARTER (%)

12 months to	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12	31 Dec 13
Fund	21.43	7.50	-0.41	11.49	9.54
IMA sector	15.78	8.68	-2.06	8.24	8.83

Performance data source: Lipper. R distribution unit class.

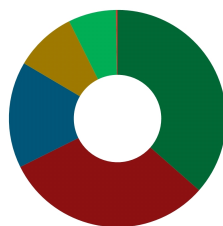
FUND IDENTIFIERS

These are unique codes used to identify a fund. You may find these codes useful if you intend to use financial websites to look up this fund.

ISIN code	Accumulation	GB0033860197
	Income	GB0033860080
SEDOL code	Accumulation	3386019
	Income	3386008
MEX code	Accumulation	LGDISA
	Income	LGDIS

ASSET ALLOCATION AND ALL BELOW INFORMATION AS AT 31 DECEMBER 2013

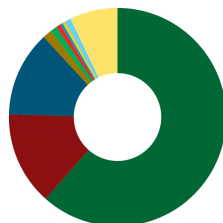
An overview of the types of investments currently held by the fund.



UK equities	36.48%	UK gilts	9.17%
International bonds	31.17%	Cash and equivalents	7.13%
UK corporate bonds	15.84%	Other	0.21%

REGIONS BREAKDOWN

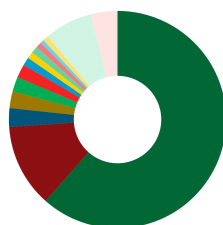
Where in the world the fund currently invests.



UK	61.51%	Middle East and Africa	0.39%
Developed Europe - excl UK	13.87%	Developed Asia	0.36%
North America	12.72%	Emerging Asia	0.09%
South and Central America	1.37%	Japan	0.04%
Australia and New Zealand	1.01%	Unclassified - Other	0.83%
Emerging Europe	0.68%	Unclassified - Cash and Equivalents	7.13%

COUNTRY BREAKDOWN

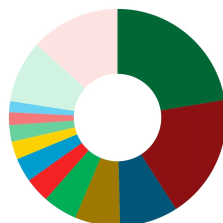
The countries in which the fund currently invests.



United Kingdom	61.51%	Germany	1.01%
United States	12.39%	Australia	1.01%
Netherlands	2.80%	Spain	0.86%
Luxembourg	2.49%	Mexico	0.57%
Italy	2.19%	Unclassified - Other	0.83%
France	2.00%	Unclassified - Cash and Equivalents	7.13%
Ireland	1.22%	Other	3.99%

EQUITIES & BONDS SECTOR BREAKDOWN

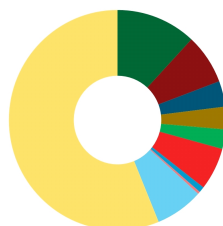
The type of industries and services the fund currently invests.



High yield corporate bond	22.40%	Telecommunications	2.65%
Investment grade corporate bonds	18.56%	Oil & gas	2.49%
Financials	8.67%	Health care	1.89%
Consumer services	6.72%	Utilities	1.65%
Consumer goods	5.12%	Asset backed securities	0.01%
Basic materials	3.70%	Government	9.27%
Industrials	3.58%	Other	13.29%

EQUITIES MARKET CAPITALISATION

The size of the companies the fund currently invests in.



> £50BN	11.91%	> £1BN and < £3BN	6.25%
> £20BN and < £50BN	7.36%	> £250M and < £1BN	0.84%
> £10BN and < £20BN	3.77%	Unknown market capital	0.36%
> £5BN and < £10BN	3.33%	Cash and equivalents	7.13%
> £3BN and < £5BN	2.87%	Portfolio debt	56.18%

MATURITY BREAKDOWN

The length of time until the bonds in the fund are due to be repayed. Generally, the longer till the repayment date, the more sensitive the prices of the bonds are to any changes in interest rates.

< 5YR MATURITY
5YR - 10YR MATURITY
10YR - 15YR MATURITY
> 15YR MATURITY
CASH AND EQUIVALENTS
NON BOND INVESTMENTS
UNKNOWN



CREDIT RATINGS (SOURCE: LGIM)

The financial strength of the bonds the fund currently invests in. The higher the rating the more likely the bond issuer is to repay the interest or loan. The ratings range from AAA, the highest grade, to C, the lowest grade.

AAA		0.15%
AA		1.76%
A		4.98%
BBB		4.83%
BB		0.78%
B		0.46%
CCC		0.04%
CASH AND EQUIVALENTS		7.13%
NON BOND INVESTMENTS		79.87%

TOP 10 HOLDINGS

The highest valued single holdings in the fund.

Holding	Sector	%
4¾% Treasury Stock 2015	Bonds	7.67%
Rio Tinto	Mining	2.21%
Vodafone Group	Mobile Telecommunications	1.93%
BP	Oil & Gas Producers	1.48%
HSBC Holdings PLC (UK Reg)	Banks	1.39%
Prudential	Life Insurance	1.37%
GlaxoSmithKline	Pharmaceuticals & Biotechnology	1.15%
Aviva	Life Insurance	1.14%
British American Tobacco	Tobacco	1.11%
Royal Dutch Shell B	Oil & Gas Producers	1.01%
	Percentage of fund in top 10	20.46%

GLOSSARY

Explanations of some of the words used in this Fund Factsheet.

Annual Management Charge	This is the charge that covers the costs of managing the fund and is taken out as a percentage of the fund's value.
Cash and equivalents	Some funds keep part of your money in cash to add flexibility and aid stability. This includes bank deposits and other investments that can be easily converted into cash.
Distribution yield	The distribution yield reflects the amounts that may be expected to be paid over the next 12 months as a percentage of your investment. It is based on a snapshot of all the investments held in the fund on a particular day. It does not include any initial charge and you may be subject to tax on your income payments.
Fund characteristics	Specific characteristics unique to the type of investments this fund may hold, which may affect your investment return.
Fund size	The total value of all investments held in the fund.
Initial charge	The initial charge is a percentage you'll pay each time you make an investment in certain funds or unit classes.
Launch date	The date the fund opened for new business.
Lipper	A Thomson Reuters company that supplies fund information, analytical tools, and commentary. We use Lipper to provide past performance data on our fund factsheets.
Ongoing Charge	Shows the European Union standard disclosure of annual costs of a unit trust or OEIC, which includes the Annual Management Charge and any additional costs for managing the fund.
Performance fee	A performance fee is charged to a fund if it performs better than a pre-agreed target. If it applies, your adviser can give you more information or further details are available on request.
Underlying yield	The underlying yield reflects the annualised income payments after expenses have been taken from the fund. It is based on a snapshot of all the investments held in the fund on a particular day. It does not include any initial charge and you may be subject to tax on your income payments. If the distribution yield is higher than the underlying yield this is either because the fund distributes coupon income and/or a portion of the fund's expenses are charged to capital. This has the effect of increasing distributions and constraining the fund's capital performance.



WHAT TO DO NEXT

If you have any questions on this fund, please speak with a financial adviser. Remember you must read the appropriate **Key Investor Information/Simplified Prospectus** before investing in the plan.

IMPORTANT INFORMATION

Currently the fund gains exposure to fixed interest securities by investing in other Legal & General funds.

Source: Legal & General Group PLC unless otherwise stated.

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