

Report for: Decision
Item Number: 3



<b>Contains Confidential or Exempt Information</b>	No
<b>Title</b>	<b>Kidwells Park Trust – Investment of Capital Funds</b>
<b>Responsible Officer(s)</b>	Andrew Brooker, Head of Finance, 01628 796341
<b>Contact officer, job title and phone number</b>	Richard Bunn, Chief Accountant, 01628 796510
<b>Member reporting</b>	Cllr Dudley, Lead Member for Finance
<b>For Consideration By</b>	Council sitting as the Trustees of the Kidwells Park Trust
<b>Date to be Considered</b>	24 June 2014
<b>Implementation Date if Not Called In</b>	24 June 2014
<b>Affected Wards</b>	“All”
<b>Keywords/Index</b>	Kidwells Park Trust
<b>Report Summary</b>	
<ol style="list-style-type: none"> <li>1. This report makes recommendations about the investment of the capital funds available to Kidwells Park Trust</li> <li>2. The purpose of the investment is threefold: <ul style="list-style-type: none"> <li>To make an investment that protects the long term interest of the Trust;</li> <li>To provide a return on the investment that can be used to promote the purposes of the Trust;</li> <li>To provide some capital growth to protect the value of the return in the longer term.</li> </ul> </li> </ol>	

<b>If recommendations are adopted, how will residents benefit?</b>	
<b>Benefits to residents and reasons why they will benefit</b>	<b>Dates by which they can expect to notice a difference</b>
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:**

- I. **The Kidwells Park Trust funds be invested in the Kames Diversified Income Fund.**
- II. **The Kames fund is added to RBWM's list of counterparties with a maximum investment limit of £1m**

## 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 31<sup>st</sup> 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.

Following research carried out with the assistance of the Berkshire Pension Fund's investment team the Kames Diversified Income Fund has been identified as the recommended investment.

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 Kames fund holds 13.8% of its capital in UK equities, 22.6% in global equities and 38% of the capital is in Bonds. The balance of the fund is invested in property and specialist income producing investments. The fund has been profiled by Distribution Technology and has been awarded a risk rating of 5, placing it in the low-to-medium risk category.

Clearly there is no guarantee with any investment but the fund targets a yield of 5% (net of charges). The fund also aims to achieve modest capital growth by allocating a portion of the Fund to income-paying securities with an initial level of income less than the target distribution (5%), but which offer attractive prospects for growth in income and capital.

Management fees for the fund are 0.65% per annum with no initial fee.

5% would generate an income of £19k pa which would be sufficient to fund grants to voluntary organisations.

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
<b>3. Accept this recommendation</b>	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 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 with no loss of capital	Secure a return greater than the demands of grants issued with no loss of capital	Secure a return greater than the demands of grants issued 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 Kames Diversified Income Fund:** 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 fund 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 the Kames Diversified Income Fund 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 – Kames Diversified Income Fund Factsheet

**17. Background Information**  
None

**18. Consultation (Mandatory)**

<b>Name of consultee</b>	<b>Post held and Department</b>	<b>Date sent</b>	<b>Date received</b>	<b>See comments in paragraph:</b>
<b>Internal</b>				
Corporate Management Team (CMT)	Managing Director, Strategic Directors, Heads of Legal Services and Policy & Performance.	10-June 2014		
Cllr Dudley	Lead Member for Finance	10-June 2014		
Cllr Burbage	Leader of the Council	11-June 2014	16 June 2014	
<b>External</b>				
None				

**19. Report History**

<b>Decision type:</b>	<b>Urgency item?</b>
Not key decision	No

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

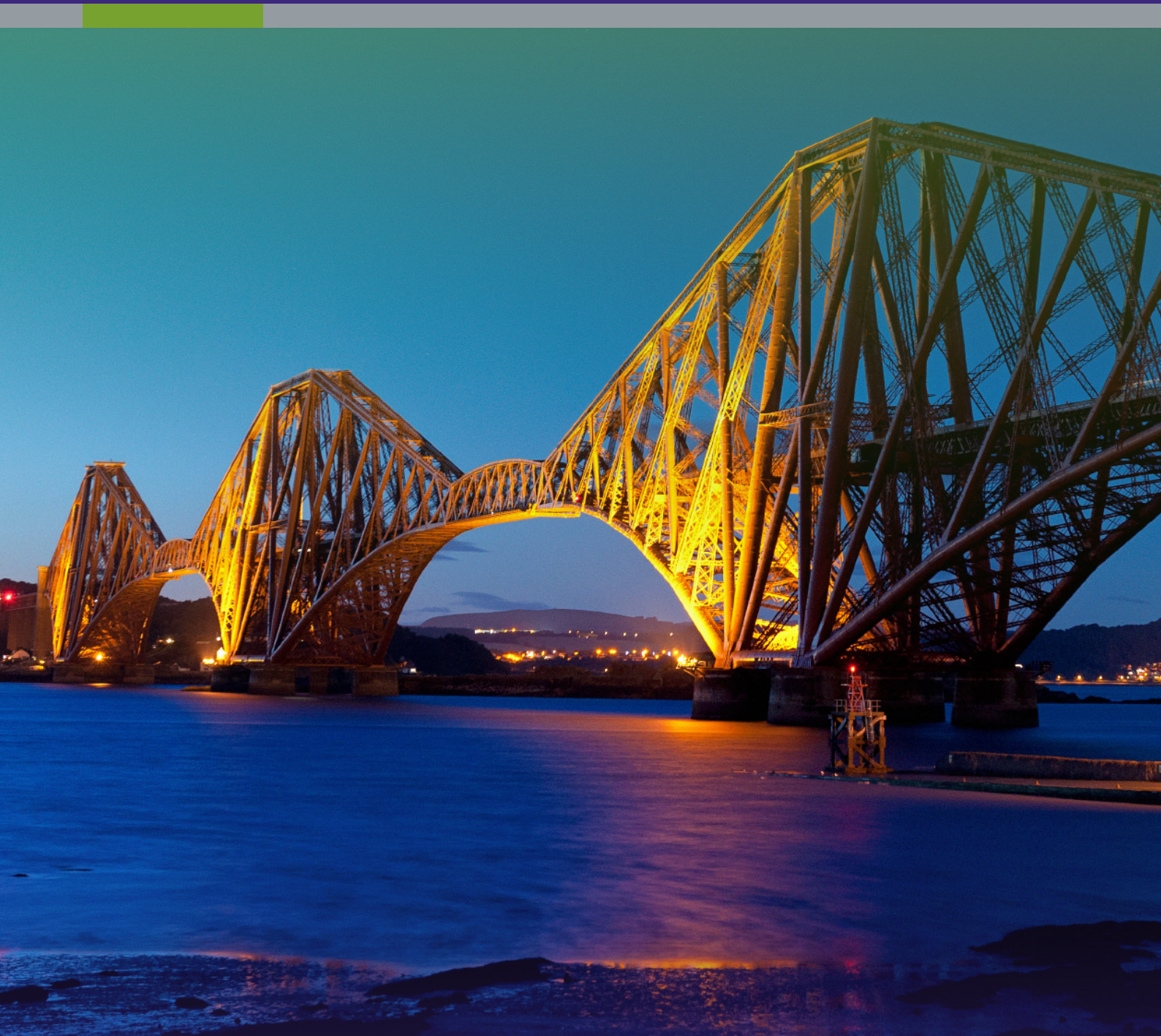
For professional qualified investors only

**KAMES**  
CAPITAL

# Kames Diversified Income Fund

## A multi-asset solution to the income challenge

May 2014



# Kames Diversified Income Fund

## A multi-asset solution to the income challenge

The Kames Diversified Income Fund aims to provide an attractive and sustainable level of income by investing in a multi-asset portfolio of yield-generating investments.

### An attractive monthly income

The Fund aims to provide an attractive level of income, currently 5% per annum, with the option for investors to receive a monthly distribution.\*

### Balanced with the potential for growth

At Kames Capital we have a total return philosophy and invest to ensure a balance between income and the potential for growth.

### A multi-asset approach

The Fund is diversified across a range of asset classes, including global equities, UK equities, investment grade bonds, high yield bonds, listed property and specialist income. This helps to spread risk and ensures a relatively stable profile of returns.

### Unconstrained

The strategy is unconstrained by any formal benchmark. This enables us to pursue the most attractive income opportunities globally.

### Quality

Investors benefit from Kames Capital's proven capabilities in fixed income, equities, listed property and multi-asset investing. Because we emphasise the reliability of income we focus on high quality investments where yield is supported by strong fundamentals.

### Single fund structure

The efficiency of a single portfolio incorporating six customised strategies using an internal multi-manager approach.

\* The fund's current target income is 5% net of charges, which are taken from capital. This income target is not guaranteed and is subject to change without any notification, depending on market conditions and our view. By investing in the fund your capital is at risk and there is no guarantee that the fund will generate a positive return or a particular level of income over any time period.

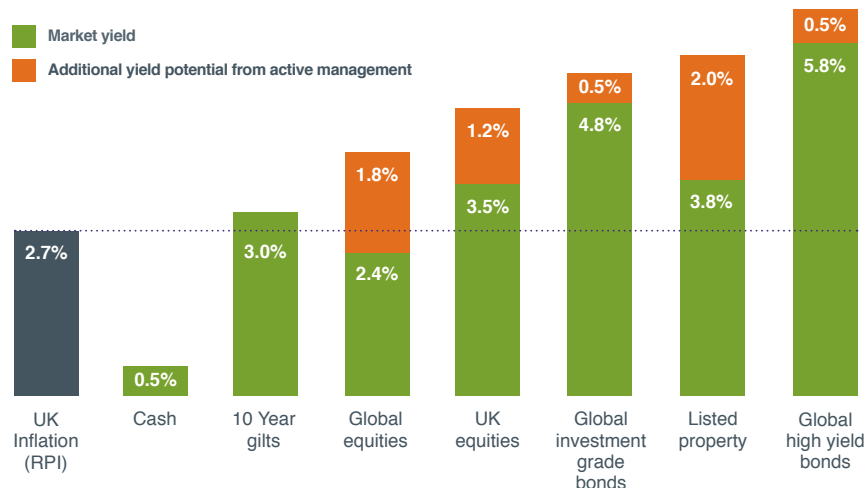
# The income challenge

Achieving a regular and sustainable income is a key requirement for many investors, particularly those approaching or already in retirement. Interest rates in the UK remain at historical lows and inflation continues to erode wealth at a level above the rates which investors can earn through traditional sources of income. As a result, many investors are severely challenged in meeting their income needs, frequently having to draw upon their capital reserves to fund their regular expenditure.

The Kames Diversified Income Fund provides an integrated solution to the challenge of generating an attractive income. It is a multi-asset income product that aims to deliver a consistent and reliable monthly income with the potential to grow over time. The Fund is designed for investors looking to benefit from the potential for lower volatility and diversification offered by a multi-asset portfolio.

Chart 1 illustrates the broad levels of income yield that are currently available from a range of asset classes, while also highlighting those with the potential for active management to provide an enhanced yield.

**Chart 1: Income is available from a diverse range of sources**



Source: Kames Capital. As at 28 February 2014. Yields will vary and past performance is no guide to the future.

## Team and resources

The Fund is managed by Kames Capital's five-strong Multi-Asset Team, which has an average investment experience of 23 years and manages £6.9 billion in dedicated multi-asset portfolios for segregated and pooled fund clients. They are supported by colleagues across Kames Capital's 75-strong investment team, which includes specialist teams in fixed income, equities, property and risk management.



**Vincent McEntegart**  
Investment manager

The lead manager of the Kames Diversified Income Fund is Vincent McEntegart, an investment manager in Kames Capital's Multi-Asset Team.

Vincent joined Kames Capital in 2013 from Goodhart Partners, a boutique asset management business that was formerly the multi-manager business of West LB Mellon Asset Management. Prior to this he was Co-Head of Investment Manager Research at Hymans Robertson and a senior member of the investment consulting practice. He has 27 years' industry experience.



**Scott Jamieson**  
Head of Multi-Asset Investing

Scott leads Kames Capital's multi-asset team, which blends different asset classes to meet the investment objectives and risk profiles of a range of clients. Scott joined Kames Capital in 2007 from Hymans Robertson, where he was a senior investment consultant. He has 30 years' investment experience, including as Head of Global Strategy at Scottish Mutual, which became Abbey National Asset Management. Scott studied Mathematics at the University of Strathclyde, has a PhD in Numerical Analysis and is a Fellow of the Faculty of Actuaries. He has 31 years' investment experience.



# Investment philosophy and process

The Kames Diversified Income Fund takes an unconstrained approach to harnessing income themes. It brings together five principal investment disciplines within Kames Capital:

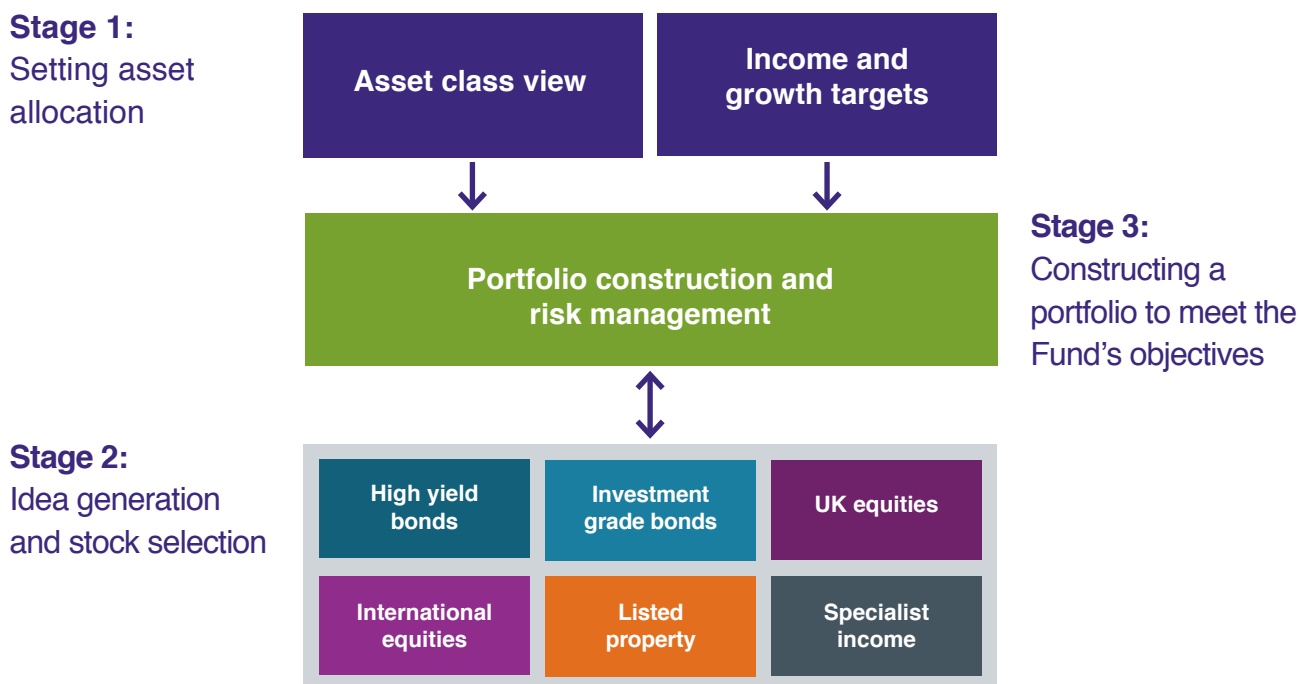
1. **Investment grade and high yield bond** portfolios, managed by specialist groups within our award-winning fixed income team.
2. **UK and global equity** portfolios, managed using our established proprietary income screening process, supported by the scrutiny of our experienced UK and international equities teams.
3. **Listed property**, which provides exposure to higher yielding opportunities in the global property markets, while providing long-term diversification benefits.
4. The selection of **specialist investments**, which can offer attractive income and diversification from the core fixed income and equity assets. These include infrastructure, real asset leasing and renewable energy.
5. The overall **asset allocation**, which is managed by Vincent McEntegart, supported by Kames Capital's Multi-Asset team.

These disciplines combine to form an integrated portfolio that aims to deliver an attractive and sustainable income.

The foundation of our investment process is the strong collaborative working relationships between our 75-strong investment team. Our collegiate culture ensures rigorous idea testing and timely information flow.

Our investment approach is dynamic and nimble, with a strong focus on liquidity, enabling us to respond quickly to market events. It is also highly risk-aware; we believe in diversifying positions at all times, so that no one risk dominates our strategy and performance. In chart 2 we summarise the key stages of our process, which we explain in more detail on the following pages.

Chart 2: Blending a top-down income strategy with stock selection by specialist teams



## Stage 1: Setting asset allocation

We begin with a top-down perspective, drawing upon our view of the economic environment and the outlook for markets over the next 6-12 months. Our strategy discussions are focused around Kames Capital's monthly Investment Policy Meeting, which is attended by senior investment professionals from across the firm. At these meetings we debate macroeconomic and asset allocation strategies as well as reviewing the latest research which can influence our views. These monthly meetings are supplemented by more regular forums, during which we review our strategy with regard to economic, company and market developments.

Our Multi-Asset Team oversees the strategic framework for the Diversified Income Fund, reflecting the output from the Investment Policy Meeting and the specific income requirements of the Fund. The team determines the allocation to bonds, equities, listed property, specialist income and cash, while managing the overall income target and risk profile of the portfolio. Our approach is flexible and unconstrained, ensuring the Fund is always invested in areas offering the best combination of risk and reward, while focusing on delivering a stable income. The process is not benchmark driven and the team has the flexibility to invest across a range of countries, sectors and market capitalisations to identify the most attractive sources of income.

While the Multi-Asset Team has the flexibility to change the asset allocation within agreed limits, we expect this to be relatively stable, with most changes implemented on an incremental basis.

## Stage 2: Idea generation and stock selection

Once the overall asset allocation is established the specialist teams are responsible for managing their sub-portfolios, which are managed to meet the specific requirements of the Fund, although share many holdings with other portfolios managed by these teams.

### Fixed income

Kames Capital is one of the UK's leading fixed income managers. Our 24-strong fixed income team is stable and experienced, with an average of 18 years' investment experience, of which an average of nine years has been spent with Kames Capital.

The fixed income element of the Diversified Income Fund includes dedicated allocations to investment grade and high yield bonds.

We have a disciplined approach to idea generation, debate and implementation. The research and recommendations of our team, including investment grade and high yield specialists, are collated and debated during our monthly fixed income strategy sessions, which analyse opportunities from both a top-down and bottom-up perspective.

Our proprietary Quadrant Analysis Framework is the cornerstone of our research process. It has been in place for over 10 years and forms the basis for our fixed income analysis. Our credit and interest rate specialists analyse opportunities and risks under four principal headings - fundamentals, valuations, technicals and sentiment - which we use to assess all bond opportunities.

As part of our monthly fixed income strategy process, our rates and credit specialists produce templates summarising their analysis for their respective areas. Each specialist presents their ratings, including the reasons supporting their decisions and the risks to their recommended positions, enabling the entire fixed income team to understand and challenge their views.

### Yield-generating equities

The Fund includes dedicated allocations to UK equity income and global equity income portfolios.

Equities represent a core area of our expertise. We have a stable team of 11 UK equity investment professionals, who have an average investment experience of 19 years, of which an average of 14 years has been spent with Kames Capital. We also have a 12-strong international equities team, who have an average investment experience of 20 years, and manage a range of regional and global funds.

We believe equity markets under-appreciate quality and undervalue dividend persistency. These qualities can form the core of portfolios that deliver long-term outperformance with an acceptable level of risk. Using Kames Capital's proprietary modelling we screen UK and global equity markets to identify companies with attractive dividend yields, dividend growth rates, pay-out ratios, balance sheets and returns on equity.

We complement our screening with in-depth qualitative analysis, including an evaluation of the fundamental operating outlook, valuation metrics and technical support for each company we research.

Our stock selection process generates high conviction stock candidates for inclusion in the portfolio. Only stock recommendations in which we have the greatest conviction are held in portfolios.

### Listed property

Investing in listed property funds offers exposure to attractive yields available from the global property market. Property offers diversification benefits, attractive and reliable income, liquidity and transparency.

The listed property investments are advised by a specialist team based in the Netherlands, which like Kames Capital, is part of the Aegon group. Kames Capital's Multi-Asset Team is responsible for final stock decisions and managing the implementation.

### Specialist income

The alternative income component is managed by our Multi-Asset Team and has the flexibility to invest in a range of income-producing investments and strategies. Our objective is to identify attractive income paying assets with low correlation to the other assets in the Fund. These include:

- Listed infrastructure
- Listed aircraft leasing
- Renewable energy
- Assets with government or regulatory backed revenue streams

The Fund's income will also include premiums received from selectively writing covered call options and from interest received as part of currency carry positions.

## Stage 3: Constructing the portfolio

The Multi-Asset Team meets formally on a weekly basis to identify opportunities and risks, discuss themes and analyse the portfolio's positioning. From this the team sets weightings of the dedicated portfolios, drawing upon:

- Asset class views
- Targets for income and growth
- Composition of dedicated portfolios
- Assessment of the nature and extent of risks in the fund.

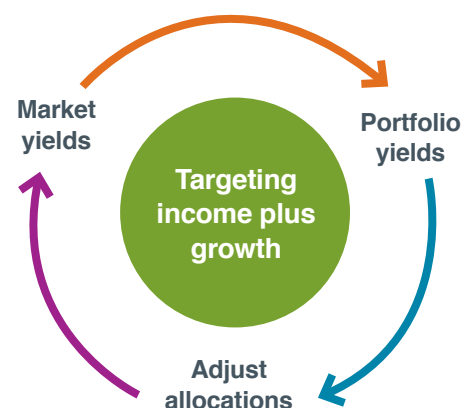
At all times the aim is to blend the components of the portfolio to provide a consistently high and stable level of income.

We review the nature and type of risks inherent in the portfolio to ensure that sufficient but not excessive risk is taken to meet the Fund's objectives.

Our Portfolio Risk Team independently assesses the risk profile of the Fund to ensure we have the right level of diversification. A formal monthly risk meeting is complemented by ad hoc discussions to ensure that awareness of the risks in the portfolio are shared and discussed.

The asset weighting ranges and current allocations are shown in table 1 below.

As the table illustrates, these limits offer significant flexibility, although we are committed to a long-term approach with relatively low portfolio turnover.



**Table 1: Current positioning of portfolio**

	Asset weighting limits		Current weighting	Number of holdings
	Minimum	Maximum		
Investment grade bonds	0%	40%	18.3%	36
High yield bonds	0%	40%	19.7%	71
Global equity income	0%	40%	22.6%	47
UK equity income	0%	20%	13.8%	15
Listed property	0%	20%	10.5%	19
Specialist income	0%	20%	11.5%	15
Cash*	0%	10%	3.6%	-
<b>Total</b>			<b>100%</b>	<b>203</b>

Source: Kames Capital, as at 30 April 2014. The ranges shown are for the physical exposure. Specialist income exposure consists of listed infrastructure, aircraft leasing and renewable energy. These internal investment parameters are subject to change without prior notice. Any derivative positions such as currency forwards or cover call options are not included in the above figures. \*In normal market conditions.

# Additional information

## Paying income to investors

The Fund targets an income of 5%\* per annum, payable monthly. The Fund will distribute the income generated in each financial year, which may be more or less than 5%. We will review the target distribution at least annually and this may change without notice.

The Fund will invest in dividend paying equities, bonds and other income paying securities that together we expect to achieve this level of income. If the income generated by the investments falls short of the target then the Fund will pay this lower amount. The Fund will not supplement distributions by drawing from capital.

## Capital growth

The Fund aims to achieve a total annual return of 7-8% over the medium term (3-5 years), with volatility levels between bonds and equities. To achieve this total return the fund managers allocate a portion of the Fund to income-paying securities with an initial level of income less than the target distribution (5%), but which offer attractive prospects for growth in income and capital.

## Independent risk profile

Distribution Technology is the UK market leader in risk profiling of funds. Their approach is designed to fit with the FCA's approach towards accessing suitability of the risk a client is willing to take.

The Kames Diversified Income Fund has been profiled by Distribution Technology and has been awarded a risk rating of 5, placing it in the low-to-medium risk category. The Fund will be monitored on a quarterly basis to ensure any portfolio changes are accounted for.



\*Source: Kames Capital, as at 30 April 2014. The fund's current target income is 5% net of charges, which are taken from capital. This income target is not guaranteed and is subject to change without any notification, depending on market conditions and our view. By investing in the fund your capital is at risk and there is no guarantee that the fund will generate a positive return or a particular level of income over any time period.

## Fund codes

Share class	ISIN	Sedol	MEXID	Citi code	Lipper
Class A Accumulation	GB00BJFLQX53	BJFLQX5	K1DVCO	K2WY	68246802
Class B Accumulation	GB00BJFLQY60	BJFLQY6	K1DVOC	K2WZ	68246801
Class D Accumulation	GB00BJFLQZ77	BJFLQZ7	K1DVSF	K2XA	68246803
Class A Income	GB00BJFLR098	BJFLR09	K1DVFS	K2XB	68246804
Class B Income	GB00BJFLR106	BJFLR10	K1DVCM	K2XC	68246805
Class D Income	GB00BJFLR213	BJFLR21	K1DVFI	K2XD	68246806

## Fund summary

<b>Objective</b>	Provide income by investing in a diversified range of assets with the potential for capital growth
<b>Launch date</b>	25 February 2014
<b>Benchmark</b>	Unconstrained (no formal benchmark)
<b>IMA sector</b>	Specialist
<b>Risk profile</b>	Distribution Technology 5 (low to medium risk)
<b>Number of holdings</b>	203 (as at 30 April 2014)
<b>Fund size</b>	£229 million (as at 30 April 2014)
<b>Geographical focus</b>	Global
<b>Style</b>	Multi-asset, specialist portfolios, yield-seeking
<b>Assets</b>	<ul style="list-style-type: none"> <li>Fixed income (investment grade and high yield bonds)</li> <li>High dividend equities (UK and global)</li> <li>Listed property</li> <li>Specialist income - including listed infrastructure and aircraft leasing funds and currency carry</li> </ul>
<b>Estimated yield</b>	5% per annum (target)
<b>Expected volatility</b>	Between bonds and equities (estimated volatility of 8%-10%)
<b>Share classes</b>	<ul style="list-style-type: none"> <li>Income</li> <li>Accumulation</li> </ul>
<b>Income distribution</b>	Monthly
<b>Base currency</b>	UK Sterling

# Contact us

To find out more about the Kames Diversified Income Fund:



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 [www.kamesviewpoint.com](http://www.kamesviewpoint.com)

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## Important information

This document is not intended for retail distribution and is directed only at investment professionals. It should not be distributed to, or relied upon by, private investors. This document is accurate at the time of writing but can be subject to change without notification.

All data in this presentation is sourced to Kames Capital unless otherwise stated.

The views expressed in this document represent our understanding of the current and historical positions of the market. They should not be interpreted as a recommendation or advice.

Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and is not guaranteed.

All yields are stated as at 30 April 2014. We calculate yields in compliance with the industry standard formula we are obliged to use which takes no account of potential future defaults. This may mean that, depending on future economic factors, the actual yield could be less than those shown.

Investment professionals must ensure that they meet their obligations in relation to their understanding of this product and the risks involved, and the extent to which this product meets the needs of their clients. Please refer to the Full Prospectus.

The Kames Diversified Income Fund is a Sub-Fund of the Kames Capital ICVC (an Open-Ended Investment Company). Kames Capital plc is the Authorised Corporate Director of the company (ACD).

Kames Capital is an Aegon Asset Management company and includes Kames Capital plc (Company Number SC113505) and Kames Capital Management Limited (Company Number SC212159). Both are registered in Scotland and have their registered office at Kames House, 3 Lochside Crescent, Edinburgh, EH12 9SA. Kames Capital plc is authorised and regulated by the Financial Conduct Authority (FCA reference no: 144267). Kames Capital plc provides segregated and retail funds and is the Authorised Corporate Director of Kames Capital ICVC, an Open Ended Investment Company. Kames Capital Management Limited provides investment management services to Aegon, which provides pooled funds, life and pension contracts. Kames Capital Management Limited is an appointed representative of Scottish Equitable plc (Company Number SC144517), an Aegon company, whose registered office is 1 Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE (PRA/FCA reference no: 165548).  
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