Finance and Resources Committee Meeting – 17 November 2009

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 14.8% for the 12 months ending September 2009. This compares with a -15.5% for the 12 months ending September 2008. Rensburg Sheppards cited the benchmark[1] performance for the annual period ending September 2009 as 11.3% return. The main areas where the portfolio performed better than the index were in UK Equities and most Overseas Equities (see appendix one). Previous year's performance schedule can be found at appendix two.

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 (see appendix three).

The latest quarterly report from Rensburg Sheppards can be seen at appendix four.

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 as commission.

Appendices
Appendix One - Rensburg Sheppards 2009 Performance Summary
Appendix Two - Rensburg Sheppards 2008 Performance Summary
Appendix Three - Investment strategy lodged with Rensburg Sheppards
Appendix Four – Quarterly Valuation report from Rensburg Sheppards

Date of paper
6 November 2009

As at 30th September 2009

TOTAL RETURN PERFORMANCE SUMMARY

ASSET ALLOCATION %	SECTOR	3 MONTHS 30/06/09 - 30/09/09 FUND %	3 MONTHS 30/06/09 - 30/09/09 INDICES %	12 MONTHS 30/09/08 - 30/09/09 FUND %	12 MONTHS 30/09/08 - 30/09/09 INDICES %	
8.9	UK Gilts	1.4	3.1	12.1	11.2	FTA Brit Govt Fixed All Stocks
2.3	UK Index Linked	3.2	3.1	N/A	4.0	FTA Brit Govt Index -Linked All Mats
9.7	Other UK Fixed Interest	9.4	9.2	12.2	12.2	Merrill Lynch £ Non-Gilts All Stocks
20.9	Total UK Fixed Interest	5.2	3.1	10.4	11.2	FTA Brit Govt Fixed All Stocks
53.8	UK Equities	23.8	22.4	13.7	10.8	FTSE All Share
			21.9		9.5	FTSE 100
9.3	USA	18.0	19.0	14.0	3.8	S & P 500 Composite
5.0	Europe	25.2	29.5	22.8	16.5	FTSE World Europe Excl UK
2.3	Japan	9.8	9.4	32.7	12.8	TOPIX
2.3	Other Pacific Basins	21.9	29.5	51.5	39.2	FTSE World Asia Pacific Excl Japan
0.6	Emerging Markets	20.5	24.6	31.2	33.1	MSCI Emerging Markets
0.6	International Equities	10.7	21.7	2.0	12.1	FTSE World Excl UK
20.1	Total Overseas Equities	18.9	21.7	21.0	12.1	FTSE World Excl UK
5.2	Cash	0.0	0.0	1.8	0.9	BoE Base Rate (-0.5%)
100.0	TOTAL ASSETS	17.1	17.1	14.8	11.3	Bespoke

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

Health Professions Council

As at 30th September 2008

REF : COUNC0004/RLO

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.

INVESTMENT STRATEGY

The portfolio is to be managed in a way that will balance immediate income with long term capital appreciation. The fund will hold a combination of fixed interest investments, shares in leading companies and/or collectives (unit trusts/investment trusts). The strategy is defined by the 'Investment Policy Document' produced annually by the Finance Director. The Trustees have requested that the portfolio should remain positioned on the "lower risk side of neutral" 21.11.05. In September 2007 a bespoke bechmark was proposed and subsequently adopted based on 20% FT Government All Stocks, 55% FT All Share Index, 20% FT World (ex UK) Index and 5% cash.

BENCHMARKS

Notwithstanding the performance indicators outlined in the formal Quarterly Valuations, HPC reserves the right to undertake the review of the performance of the portfolio using a benchmarking agency.

ETHICAL POLICY

No tobacco, alcohol production and gambling operations.

DIVIDENDS

Transferred to deposit monthly

INTEREST

Transferred to deposit monthly

Date last reviewed - 18 JUN 2009

Rensburg
Sheppards

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Our Ref : JM/VM/COUNC0004

9th October 2009

Charlotte Milner
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184 Kennington Park Road
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Dear Charlotte

Health Professions Council

Please find enclosed the quarterly valuation for the period 30th June to 30th September 2009. Over this period the value of the portfolio has increased by £261,905 to £1,906,453.

On a total return basis the portfolio has appreciated by 17.1% compared to 17.1% for the benchmark. Over the rolling year the portfolio has performed particularly well appreciating by 14.8% compared to 11.3% for the benchmark. The portfolio has outperformed over the year by about 3% in UK equities and 9% in overseas equities and the recovery of 12.2% in corporate bonds has helped reduce the underperformance in fixed interest to less than 1%.

Returning to the most recent quarter we have seen very strong gains from equities with the UK proportion appreciating by 23.8% and overseas by 18.9%. These have been caused by a number of factors. Authorities around the globe have continued to increase liquidity in financial markets, particularly the US and indeed the UK government have pledged £175bn to quantitative easing.

China and many Far Eastern economies have resumed growth, and consumer confidence surveys globally have been improving, retail sales have been better than expected and, even in the UK, house prices have now rebounded for the third month in a row. This has helped to bring together both improved confidence and liquidity, two necessary components of a market recovery.

Our belief that share prices whilst recovering from an oversold position, have perhaps got ahead of fundamentals recently, has led us to refrain from adding much to the equity exposure and the gains in equity markets have increased their relative weightings.

Your Portfolio

In the last quarter we have made few changes, reducing exposure to fixed interest by £2,892 and increasing UK equities by £14,714. However, fixed interest as a proportion of the portfolio has fallen from 23.7% to 20.9% and UK equities have increased from 50.5% to 53.8%.

The fixed interest proportion appreciated by 5.2% compared to 3.1% for government securities, helped by the performance of corporate bonds. We have taken the opportunity of the recovery to sell the Lloyds Bank Preference Share holding, concerned that the European Commission investigation into governmental support for failing banks may force Lloyds Bank to sell part or all of HBOS and may also cause them to cancel dividend payments on preference shares. The market believes that shareholders could be offered conversion terms into ordinary shares if payments are cancelled, but this would impact Lloyds' capital ratios and would not provide any income as Lloyds are unable to pay dividends until the government's stake has been repaid. We have reinvested into HSBC 8.208% Bonds, where the government does not have a shareholding, helping to offset the income reduction.

The UK equity market was led higher by a recovery in cyclical areas such as mining and by further strength in those stocks with weakened balance sheets which had previously been most adversely effected. Given that we have generally looked to invest in higher quality companies the portfolio has been underweight in some of these areas but this has been more than compensated for by strong individual performances across a range of sectors, including Melrose +101%, Cadbury +55%, Whitbread +44%, HSBC +42%, Prudential +45% and Logica +64% and the increased exposure to smaller and medium sized companies that was made earlier in the year.

Conversely, utilities (which provide high yields) have been adversely affected by concerns that regulators will allow a lower rate of return on capital in future with Scottish and Southern appreciating by 3.0%.

The announcement of a rights issue by Rexam after previous management denial hurt the share price. But, following a meeting with the company, we used the opportunity to take up the rights at 150p and add to the holding at 230p compared to a share price of 261p at the quarter end. We have also purchased a holding of BG Group.

The holding of United Business Media was sold. An acquisition by Thomson Reuters is increasing competition in the financial news sector which is UBM's highest margin area, and long lead times may have exaggerated the strength of continuing demand in their exhibitions division. The proceeds were reinvested into Man Group, the hedge fund management company. The stock has a yield of 8.3% and approximately one third of the share price is in net tangible assets. The low yields on cash and gilts suggest that hedge funds will again see net additions to funds. We have also slightly reduced exposure to Cadburys after the strong appreciation following the expression of interest by Kraft, and also reduced Rio Tinto at £22.30 having taken up the rights at £14.00.

There were no changes to the overseas proportion with the funds held generally performing close to their relevant markets. The overseas equities in total appreciated by 18.9% compared to 21.7% for the FTSE World (ex UK) index. The surprise was that Europe was one of the best performing markets, rising by 29.5% compared to the US which rose by 19.0%. Sterling fell by just 2% relative to the US dollar but by larger amounts relative to most other currencies given the uncertain UK economic and political backdrop.

Outlook

As mentioned earlier markets have been buoyed by liquidity and an expectation that economies and corporate profits will recover in due course, rather than based on any absolute earnings improvements. The UK market is now on a PE of about 17X, which is above the long term average of 15X, but at this stage of an economic recovery, when earnings are depressed, markets have the ability to increase valuations further.

In the UK, the government have been creating liquidity by buying back medium and longer-dated government securities and corporate bonds. In our view this has made government securities even more expensive and vulnerable to a sell off when the quantitative easing programme ends and markets feel the full weight of issuance to fund the enormous gap between government income and expenditure. Also, the potential issuance by Lloyds and RBS to reduce government dependence may act as a sponge for liquidity given the size of the shareholdings, but fund raisings by banks in the US and Europe have recently been taken positively.

The prospect of a general election and the probable change in government at a time of economic stress is already leading financial commentators in the press to speculate on all manner of possible cuts in government spending or tax increases. The problem is that whatever the rhetoric is today it is likely to have changed once an election has been completed making predicting policy difficult. That said, both government spending cuts and tax rises are likely and as a result we do have an underweight exposure to the more domestic sectors of the UK economy. Also, whoever wins the next election will probably look to introduce changes early so that the pain is taken as soon as they have received the mandate from the country, in the hope that the economic position will have started to improve by the time they face re-election.

The UK's relationship with Europe is also likely to be tested given the conservatives' unresolved bi-polar relationship with Europe and the Lisbon Treaty legacy left by Tony Blair. The outlook for overseas markets in many cases looks more attractive but valuations are already more expensive with the US on 18X, Germany on 23X and Japan on 30X earnings and China has also just announced that it is trying to limit the rate of expansion of manufacturing capacity.

Therefore there are uncertainties, certainly for the UK economy and next year does look difficult and we are still taking a relatively cautious line, but given the low return on cash and the potential issuance of gilts we are currently looking to maintain a balance to your portfolio.

With kind regards.

Yours sincerely

James Minett

James Minett
Senior Investment Director

Encl.