APPENDIX 4

PROPOSED NEW INVESTMENT OPPORTUNITIES

Property funds

Property funds are investments in commercial property, for example, offices, factories, warehouses and retail space. Customers make lump-sum investments, which are pooled together and used to purchase a range of assets, invested in two ways: directly in commercial property; or indirectly by buying shares in property companies or other property funds.

Property funds offer the benefit of accessing specialist knowledge when investing in such opportunities. Some funds operate solely for the public sector while others have a wider range of investors. Each of these funds have fees associated with them that can vary but are significant. Investments would only be made in funds that are regulated by the Financial Conduct Authority (FCA). The rate of return on these funds can be attractive at around 5% pa depending upon performance and the economic cycle, however funds would need to be invested over a long period in order to recover the cost of joining the fund. Some schemes are already operating and hence have a track record of performance while others may be at the commencement of the fund. Whilst these clearly do not have a track record the benefit here is that it is possible to shape the nature of investments that are to be made.

Investing in property can potentially provide a good source of income thanks to rent from tenants, as well as the opportunity for capital growth if property prices rise. Property is known as an ‘illiquid’ asset because generally it can be difficult to sell quickly, at its market value. Property values can, similarly to any other type of investment, fall as well as rise, and there are no guarantees that profits will be made.

One of the big worries for UK property funds is their exposure to large commercial shopping centres. These were once favoured by bigger property fund managers but both Brexit and the shift over to digital shopping has meant that many are simply not worth what they were originally paid for.

If a large number of investors attempt to cash in at the same time, this can force some property funds to suspend trading, unless they have a significant cash buffer in place. For example, several funds were forced to temporarily suspend redemptions in 2016 after the UK’s vote to leave the EU led to a wave of redemption requests which exceeded the cash available in the fund. When this happens, it means that investors cannot sell their holdings until the suspension is lifted and the value in the meantime continues to change, possibly falling.

Solar Bonds

Solar bonds are similar in some ways to property funds in that investments are made in physical assets, in this case solar PV farms. These are secured asset backed investments that can pay a good return above what can be obtained in traditional investments. The liquidity of these investments is generally between 1 – 5 years. However these bonds can be traded to an interest party and sold if a buyer can be found.

There is security in investing in this type of asset and the investments can also be regulated. It meets the green agenda and broadly provides steady rates of return, which can vary between be 3% to 7%.

Financial modelling should provide a full sensitivity analysis covering the major risks of falls in energy prices, increases in rents, falls in electricity output and increases in interest rates. This will establish that sufficient profit headroom exists to pay interest under all sensitivities.

Corporate Bonds

Corporate bonds are issued by companies to raise funds for their business operations. The rates can vary but typically could be around 5% dependent upon the period of investment. When buying a corporate bond you are investing in the credit risk of that company i.e. if that company went bust you could lose all the principal invested.

An alternative could be to buy into a range of corporate bonds via an investment firm, which would incur fees, however this provides access to specialist knowledge and allows the spreading of risk across a range of companies. Due diligence would have to be undertaken but the investor could stipulate or source opportunities whereby only companies with good credit ratings are invested in.

Council investments

Local Authorities regularly borrow from and lend to each other within the money market in the short to medium term i.e. up to 5 years. One benefit of investing with other authorities is that they have an excellent credit rating, however the returns are not as attractive as other investment opportunities.

For example, a 3 year investment could achieve around 1.80% pa, which is 1.1% above the Council's current average rate of interest with a secure investment. This would generate an additional £33,000 of income per year if £3m was invested, and this could be considered within a balanced portfolio of investments.

Banks/Building Societies –

The Council currently invests its available cash within this sphere of the market, and the duration for this investment type is for a relatively short term to ensure liquidity. If sums were invested for longer, say 2 years, there could potentially be access to an incremental increase of around 1%, which has the benefit of good security but only a modest increase in return.