

# INVESTMENT REPORT – 30<sup>TH</sup> JUNE 2004

## EXECUTIVE SUMMARY AND RECOMMENDATIONS

### INTRODUCTION

Mr James Minett will take the committee through the report and valuation. Note that the report now includes new headings WITHIN the valuation itself. These cover quarterly and annual performance figures.

### DECISION

The Committee is asked to agree the following:

**That there should be no change to the Investment Parameters set out in Section A.**

The Committee is requested to note the valuation and report.

### BACKGROUND INFORMATION

None

### RESOURCE IMPLICATIONS

None

### FINANCIAL IMPLICATIONS

None

### BACKGROUND PAPERS

See attached commentary (dated 19<sup>th</sup> July 2004) and accompanying valuation.

### APPENDICES

None

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CARR SHEPPARDS  
CROSTHWAITE

A member of the Investec Group

19<sup>th</sup> July 2004

Our ref: JM/IT/COUNC0004

P Baker Esq  
Health Professions Council  
Park House  
148 Kennington Park Road  
London SE11 4BU

Dear Paul

**Health Professions Council**

I am writing to enclose a quarterly report for the period 1<sup>st</sup> April – 30<sup>th</sup> June 2004. At the end of the period the portfolio was valued at £1,316,035 which is an increase of £35,127, of which £17,787 was capital appreciation and £17,339 was dividends and interest.

As you will see from the new quarterly report we have now incorporated both quarterly and annual performance figures for the portfolio, and for each asset class. For the quarter the portfolio appreciated by 2.0% with a slight fall of 2.2% in the UK fixed interest proportion being more than off set by gains of 3.3% in UK equities and 3.6% in overseas equities, both ahead of their respective indices.

With regard to the UK fixed interest proportion this has been adversely affected by the background of increasing interest rates and fears of higher inflation but also shorter and medium dated securities, where the fund is represented, have performed worse than longer dated securities. These have benefited from the continuing requirement for life assurance companies and pension funds to match assets with liabilities. As a result there has been an excess of demand over supply at that end of the market. However, the Government are being requested to increase issuance of longer dated securities which could redress the balance.

For the year as a whole the portfolio has returned 12.6% with the fixed interest proportion producing a negative return of 2.6%, affected by the factors in the current quarter, but UK equities have produced a return of 17.0% compared to 16.9% for the FT All Share Index and 14.6% for the FTSE 100 Index.

Overseas equities have produced a return of 29.1% compared to 13.3% for the FTA World (ex UK) Index, helped by a return of 58% in international equities. The weighting in this sector was zero but it had included the Herald Investment Trust which was sold in the previous quarter. In this quarter we sold the holdings of Jupiter Global Green Investment Trust, and ethical fund, which has perpetually disappointed, and the HSBC UK Smaller Companies Fund and reinvested in Centrica which manages utility billing under the British

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Gas brand name and has recently announced the sale of the AA and WPP the international advertising company.

Over the past few months markets have increasingly focused on 'quality' as opposed to 'opportunity' and this has been to the benefit of the fund. Also, in reality the market has moved in a very tight range since the end of last year and there has not been the necessity to restructure the portfolio significantly.

Financial markets have pursued a chequered course influenced by the United States where the mood shifted from misplaced concerns about a jobless recovery to worrying about US interest rate rises, once it became clear that healthy job creation was underway. Although the level of US interest rates is exceptionally low, investors have fretted about market reactions to a rise in the cost of money, recalling that markets were volatile in 1994, which was the last time the Fed raised rates in the aftermath of a recession.

The US Federal Reserve confirmed market expectations by raising interest rates 0.25% to 1.25% in June, while continuing to state that it expects future rises to be "measured", unless economic data force them to act faster. Ironically, in mainland Europe, where the growth rates are much more sluggish, markets have worried less about rate rises and therefore been more stable.

Two other international events impinged upon market sentiment, of which the more serious was the sharp rise in the oil price during the spring following increased violence in Iraq and other countries in the Middle East. At one stage, oil prices rose over 30% but fell back following an increase in OPEC output, to end June some 10% up on December levels. The second major development was a move by the Chinese authorities to slow down their economy. This has already had a visible impact on activity, disquieting markets such as commodities and Far Eastern equity markets, which had benefited from the boom at the end of 2003.

In the UK, the Bank of England [BoE] raised rates in February and later signalled disquiet at the imbalances in the economy with consecutive rate rises in May and June to 4.5%, followed by public warnings from the BoE Governor Mervyn King about the inflated level of house prices. This suggests a determination to head off potential inflation risks by cooling consumer demand. Consequently, within the UK equity market we have seen, more recently, an under performance of the consumer related sectors from house builders through to the mortgage related banks.

Sector by sector over the quarter Oil and Gas outperformed by +7%, Pharmaceuticals performed in line while Telecoms lagged by -5% and Banks by -2.5%. The Telecoms poor showing lies fairly and squarely at the door of Vodafone which had performed well in the previous quarter but lost 6% whilst at last the smaller BT helped the sector by adding 12% on expectations that the dividend could be increased in due course to a level where the stock could yield 6%. The fund has also benefited from the bid by Philip Green for Marks & Spencer. It is probable that the bid will fail but I hope it will galvanise the management team into producing a better trading performance and return for shareholders than has been the case over the past few years.

A period of transition for markets is natural in the early stages of recovery, as the flows of liquidity into assets expected to recover dry up and are replaced by concentration on companies which are delivering on earlier hopes. So far in 2004, profit estimates world-wide have been exceeded and trading statements by companies more optimistic. Economic growth forecasts have been upgraded, with Japan a particular positive surprise. If these positive trends continue, equity markets have scope for further gains but the issue of budget deficits will need to be faced in 2005 (after the US and, presumably, UK elections).

If you should have any questions regarding my letter or the new report then please do not hesitate to contact me.

With kind regards.

Yours sincerely



**James Minett**

HEALTH PROFESSIONS COUNCIL

FERL C2078

June 2004

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PLEASE REMOVE THIS PAGE  
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RLO

The contents of this report should only be relied upon by you following consultation with your accountant or other financial adviser. Alternatively if you do not have a financial adviser you must satisfy yourself as to the accuracy of all such information.

Accordingly Carr Sheppards Crosthwaite, its servants and agents accept no liability whatsoever for any error or omission contained herein.

**HEALTH PROFESSIONS COUNCIL**

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**June 2004**

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This report contains the following sections:

- A Investment Parameters
- B Summary of Asset Movements
- C Performance Summary
- D Asset Allocation
- E Distribution of Investment Changes
- F UK Equity Sector Allocation
- G Transaction History
- H Largest Holdings
- I Largest UK Equity Holdings
- J Cash Reconciliation
- K Portfolio Valuation

As at 30th June 2004

SECTION A PAGE 1 OF 1

REF : COUNC0004/RL0

## OUR UNDERSTANDING OF YOUR MAIN REQUIREMENTS.

GENERAL OBJECTIVES

The inherited investment policy is to seek a balanced return from income and capital growth and no change from this position is sought at this time. However, during the 2 years commencing 1st April 2002 there may be significant pressures on liquidity to fund the development of the HPC processes not covered by the Dpt of Health grants and prior to the authorisation of fee increases by the Privy Council. Additional expenditure on communications, computer systems and the development of the office will need to be funded, as will the payment of fees and expenses to council members.

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.

DIVIDENDS

Transferred to deposit monthly

INVESTMENT PARAMETERS

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).

ETHICAL POLICY

No tobacco.

INTERESTTransferred to deposit monthly  
Date last reviewed -



As at 30th June 2004

SECTION B PAGE 1 OF 1

REF : COUNC0004/RLO

DESCRIPTION	ASSETS IN £	ASSETS OUT £	TOTAL £
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Value as at 31 MAR 2004			1,280,908.00
Plus assets introduced to the portfolio			
CASH	0.00		
STOCK	0.00		
DIVIDENDS	16,524.46		
DEPOSIT INTEREST	815.32		
TOTAL	17,339.78		1,298,247.78
Less assets transferred or paid from the portfolio			
CASH		0.00	
STOCK		0.00	
DIVIDENDS		0.00	
DEPOSIT INTEREST		0.00	
FEES AND CHARGES		0.00	
TOTAL		0.00	1,298,247.78 Adjusted Value
Value as at 30 JUN 2004			1,316,035.00
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Realised and unrealised gains(losses) during period			17,787.22
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As at 30th June 2004

SECTION C PAGE 1 OF 1

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**TOTAL RETURN PERFORMANCE SUMMARY**

ASSET ALLOCATION %	SECTOR	3 MONTHS 31/03/04 - 30/06/04		12 MONTHS 30/06/03 - 30/06/04		
		FUND %	INDICES %	FUND %	INDICES %	
20.6	OTHER UK FIXED INTEREST	-2.2	-0.8	-2.6	0.0	FTA Gov't All Stocks
20.6	TOTAL UK FIXED INTEREST	-2.2	-0.8	-2.6	0.0	FTA Gov't All Stocks
65.5	UK EQUITIES	3.3	2.2	17.0	16.9	FT All-Share
			2.5		14.6	FTSE 100
2.8	USA	2.8	3.1	19.6	8.2	S&P Composite
3.7	EUROPE	3.8	4.4	21.1	18.8	FTA Europe ex-UK
0.0	INTERNATIONAL EQUITIES	6.2	1.8	58.2	13.3	FTA World ex-UK
6.5	TOTAL OVERSEAS EQUITIES	3.6	1.8	29.1	13.3	FTA World ex-UK
7.4	CASH	0.9	0.9	3.4	3.3	BoE Base Rate (-0.5%)
<b>TOTAL ASSETS</b>		<b>2.0</b>		<b>12.6</b>		