



**Report for Trustees of Cowbridge  
Comprehensive School Trust**

## **Report for the Meeting of the Trustees of Cowbridge Comprehensive School Trust on 9<sup>th</sup> January 2012**

### **Valuation**

Please refer to valuation as at 31<sup>st</sup> March 2011. See attached.

### **The Global Economy and Investment Markets**

According to the World Bank in May 2011, the global financial crisis is no longer the major force dictating the pace of economic activity in developing countries. Country-specific issues are now the dominant factors underpinning their growth or decline.

The major world stock market indices have in the majority posted positive returns during 2010 and 2011 with the exception of Japan. The earthquake and tsunami in Japan and the Middle East and North African political troubles have contributed to a modest slowing in global industrial production and trade. Nevertheless, global economic activity is expanding significantly – particularly in many emerging economies and pockets of the Asian and Latin American economies. Whilst Japan continues to struggle in its household and banking industries this is expected to fade by end 2011 as government consolidation and rebuilding intensifies.

Although solid growth led by developing-countries is the most likely outcome going forward, high food prices, possible additional oil-price spikes, and lingering post-crisis difficulties in developed countries pose downside risks.

In the Eurozone, the divide between the wealthy industrial north and the debt-ridden southern countries widened with Germany leading the way with year on year positive economic growth on the one hand and Greece accepting EU bail-out on the other. On average, analysts have reduced their growth estimates of over 600 companies from 18 European countries.

The US earnings projections for the S&P 500 companies have risen to 4% this year alone. The US is posting weak but positive overall growth.

The UK economy is expected to grow more slowly. Both the National Institute of Economic and Social Research (NIESR) and the Bank of England (BOE) reduced their growth forecasts during the first and second quarters of 2011, citing growth of c1.4% this year, and reducing their estimates from 3% to 2.75% in the medium term. Although still positive, the growth forecasts have been reduced citing high energy prices and continuing government austerity as the major factors. Both organisations point to the growing technical manufacturing sector as the key driver to economic productivity in the long run.

In July the BOE's Monetary Policy Committee (MPC) held interest rates at 0.5%. The equity and fixed interest market expectations of increasing interest rates shifted back and forth during 2010 and 11. Increased rates were priced into the markets for late 2011 after the BOE had indicated that inflation will stay above target until 2013. However, weaker than expected economic data in the spring of 2011 pushed the expectation of rate hike back to spring 2012.

Currently standing at 4.5%, the increasing CPI inflation rate has been caused by the hike in VAT and rising food and commodity (particularly energy) prices. The BOE continue to take a cautious approach to interest rates with a view to hitting the 2% inflation target in the medium term. They are forced into playing a balancing act between improving economic growth or keeping inflation under control – a difficult task since global food and energy prices remain outside their control. It is expected that inflation could peak at 5% later this year with most economists predicting a long term inflation rate of 3.5%.

In the fixed interest markets corporate bond yields have declined over the last year with the exception of shorter-duration and long-dated very high quality (AAA rated) corporate bonds. 2012 will be a tough

year for corporate bonds, when the impact of enforced solvency regulation on banks and insurance companies comes into being.

Commodity markets continue their sustained run. Energy prices may be impacted by a possible worsening of conditions in the Middles East – forcing a sharp rise in oil prices due to uncertainty over supply. Domestic food prices are expected to moderate in 2011/12, however if crops disappoint or oil prices rise we could see local food prices increase further.

In the UK the residential property market continues to have chequered performance largely related to elevated prices and low levels of transactions and lending. House prices are expected to remain flat during 2011 with some regional variations. London, south-east and east prices continue to be resilient whilst in the north-east, north-west, Scotland and Northern Ireland prices have fallen – largely due to unemployment fears. Conversely the rental market has rallied significantly as potential buyers are forced to look at different forms of tenure due to lack of available mortgage lending. The buy-to-let market for cash investors is gathering traction once again.

In the commercial property market, surveyors suggest that the unwillingness by banks to lend at competitive rates is hampering the investment side of the market with values outside of London remaining depressed. Tenant demand is rising driven by improvements in industrial and office markets. Despite this the outlook for rent increases remains weak as available space rises.

### **Seven Investment Management Discretionary Portfolio (7IM)**

This portfolio has not quite met its measured benchmark over the past 12 months, the FTSE All Share index. However, as you know, this is a far more diversified portfolio and they are aiming to manage the risks, not just ‘shoot the lights out’ in performance terms. To put this in to context, since inception, the volatility within the portfolio has been just 12.06% versus 24% benchmark. The fund manager has confirmed in respect of the Adventurous Fund, the long term expected return is 10.2% gross and the accumulated performance since inception returned circa 41.78%, so the fund is within targeted volatility despite the fact that we have experienced one of the worst financial crisis in 80 years. Although the volatility has been relatively low, the Adventurous Fund is highly weighted in Equities (approximately 76%), which can lead to high fluctuations.

### **Seven Investment Management Evergreen Portfolio**

Over a one-year period the Evergreen (now First International Advisors) Fixed Interest portfolio gained 7.20% on a Total Return basis (net of fees), versus 13% gross for the FTSE Actuaries UK Gilts All Stocks Index, although below benchmark, the portfolio is much more diversified than simply the UK Gilt index. The average current yield was 4.12%.

As you will have seen in the financial press and on the news no doubt, we have experienced some very tricky times for investing specifically over the past 5 months. Market volatility has increased dramatically on the back of uncertainties and decisions due to be made in Europe; the US are firmly not out of the woods; China’s growth forecasts being reduced; returns on bond yields at a 200 year low. It all sounds rather doom and gloom, however, their Investment Management committee have expressed the following:

- They do not believe we are in the “recession territory” of 2008.
- They see recovery with low growth, not negative growth but possibly over a somewhat prolonged period.
- Policymakers are finally responding – Eurozone bailouts, more stimulus in the US and elsewhere
- Chinese growth may have slowed but 8% is still incredibly strong compared to other global economies.
- Banks are in much better shape than they were in 2008 with much tighter regulation.
- It will take time, but equities can stabilise and recover.
- Market volatility, although increased over the past 4-5 months, is not at the all-time highs of 2008 and they are still actively managing the volatility within the portfolio.

Their Investment Management committee met up for the final quarterly meeting of the year last week and we will keep you informed of any movements they will be making within the portfolios once they have made their final decisions. The general sentiment which came out of the meeting was not entirely negative for the long term which is encouraging. They believe that next year will be a year of 2 halves, with the first half being particularly volatile, however, during the second half, equity markets will pick up.

### **Dimensional range of funds**

Bluefin's recommended range of Dimensional funds and Legal & General aims to provide you with passively managed exposure to the global equity markets.

Bluefin's recommendation to invest in equities via passive managers is based on the principle that investors continually compete with each other to find the most attractive return. This competition drive the market to reflect its fair value ensuring that no investor can expect greater returns with incurring higher levels of risk. Active managers try to time when it is best to buy one share over another often resulting in costly mistakes if their predictions are wrong. By investing passively, i.e. buying the market as a whole and accepting the returns it generally provides, the Dimensional range of funds aims to provide you with the general market return without the added risk.

All the Dimensional funds have posted a very positive return in the last year largely as a result of positive global equity market performance coming out of the global financial crisis. In particular, funds that have the greatest exposure to smaller companies have fared best.

### **Dimensional Emerging Markets**

The objective of this fund is to purchase shares in publicly traded companies in emerging markets generally considered to be developing or emerging countries by the World Bank as well as countries that are classified by the United Nations or otherwise are regarded by their own authorities as developing. In the past year the market performance has decrease the fund's value by only -3.6%

### **Dimensional International Core**

Dimensional international core equity strategy seeks to provide broadly diversified coverage of developed markets outside the UK with a greater exposure to the return premiums associated with a company's size and value characteristics. The developed markets universe is comprised of the twenty-two countries in the MSCI World ex UK Index. Since your investment into this fund the market performance has increased the fund's value by c3.6%

### **Dimensional UK Core Equity**

The objective of the UK Core Equity Fund is to purchase a broad and diverse group of shares of UK companies with an increased exposure to small cap stocks and those it deems eligible value stocks. Generally, the Fund purchases stocks traded on the London Stock Exchange and included in the FTSE All-Share Index. Since your investment into this fund the market performance has increased the fund's value by c4.9%

### **Dimensional Global Short Dated Bond**

The investment policy of this Fund is to purchase high quality, investment grade short term fixed income and floating-rate securities and money market instruments issued by governmental, quasi-governmental and corporate issuers in developed countries which mature in five years or less. At the present time, developed countries comprise those countries which are members of the OECD. It is **not** the current intention of the Fund to invest in emerging markets. In the past year the market performance has increased the fund's value by c4.2%

### **Legal & General Index-linked Gilt Index**

The fund invests in high quality index linked government stocks, with varying maturities. The team at L&G believes that successful index tracking strikes a balance between close matching of the index and the management of trading costs. Using pragmatic replication, all the bonds in the portfolio are held broadly in line with their index weights, ensuring close tracking of the index. The Legal & General

Index Linked Gilt Index Trust provides access to the entire index linked gilt market, whilst reducing risk by avoiding duration positions. To provide an income by tracking the total return of UK Government Securities as represented by the FTSE - A Index Linked All Stocks Index. To provide the potential for some growth on your investment, where required. Since your investment into this fund the market performance has increased the fund's value by c7.3%

### **Conclusion**

The portfolio has shown a marked improvement in performance since your last valuation in March 2010, by 9.15%, and is still achieving the required income. I therefore recommend no changes to the underlying investments in your portfolio at the current time, although I must remind you that the growth and income from these investments is not guaranteed, and may fluctuate down as well as up.

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## Cowbridge Comprehensive School Trust - Valuation as at 31st March 2011

Date	Investment	Original Amount Invested	Total Income Paid to 31st March 2011	Total Income Accrued as at 31st March 2011	Overall Current Value 31/03/2011	Profit/Loss	Growth %
<b>Part 1 - IMF01SEC</b>							
11.08.06	7IM	135,000.00			152,886.45		
	7IM Cash				45.87		
	Evergreen	135,000.00			126,653.17		
	Evergreen Cash				8,237.52		
	Cash		31,678.91	1391.15	1,386.50		
		<b>270,000.00</b>	<b>31,678.91</b>	<b>1,391.15</b>	<b>289,209.51</b>	<b>50,888.42</b>	<b>18.85</b>
<b>Part 2 - IMF01SFD</b>							
11.08.07	MLC Growth Portfolio	137,826.00			140,689.32		
	MLC High Income	138,224.00			115,037.68		
	Cash	5,605.26	23,139.45	985.21	2,169.17		
		<b>281,655.26</b>	<b>23,139.45</b>	<b>985.21</b>	<b>257,896.17</b>	<b>-619.64</b>	<b>0.22</b>
<b>Grand Total</b>		<b>551,655.26</b>	<b>54,818.36</b>	<b>2,376.36</b>	<b>547,105.68</b>	<b>50,268.78</b>	<b>9.15</b>

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31.03.11/VAB

## Cowbridge Comprehensive School Trust - Valuation as at 31st March 2011

<b>Part 1 - IMF01SEC</b>	<b>Offshore</b>	<b>Onshore</b>	<b>Cash</b>	
7IM	£107,479.31	£45,407.14	£45.87	
Evergreen	£32,451.84	£90,419.82	£8,237.52	
Accrued Interest			£3,781.51	
Dealing Account			£1,386.50	
	<b>£139,931.15</b>	<b>£135,826.96</b>	<b>£13,451.40</b>	<b>£289,209.51</b>
<b>Part 2 - IMF01SFD</b>	<b>Offshore</b>	<b>Onshore</b>	<b>Cash</b>	
MLC Growth Portfolio		£140,689.32		
MLC High Income		£115,037.68		
			£2,169.17	
	<b>£0.00</b>	<b>£255,727.00</b>	<b>£2,169.17</b>	<b>£257,896.17</b>
<b>Grand Total</b>				<b><u>£547,105.68</u></b>