

**Chief Executive: Dr Ann Black**

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If calling please ask for  
**Edna Flaws**  
Direct Dial: 01595 744994

Our Ref: EM/TA48

Date: 7 February 2017

Dear Sir/Madam

You are invited to the following meeting:

**Shetland Charitable Trust  
Bowlers Bar, Clickimin Centre, Lerwick  
Thursday 16 February 2017 at 5.30pm**

Apologies for absence should be notified to Lynne Geddes on 01595 744592.

*(Please note the time and venue of this meeting)*

Yours faithfully

(signed) Dr Ann Black  
Chief Executive

## **AGENDA**

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Trustees are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Trustee making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

(d) Confirm minutes of meeting held on 24 November 2016 (enclosed).

***For Information***

1. Investment Review Report – Quarter to 31 December 2016. Report enclosed.
2. Management Accounts – Nine Months Ended 31 December 2016. Report enclosed.

The following items contain **CONFIDENTIAL** information

***For Decision***

3. Shetland Heat Energy and Power Limited. *Copy to follow.*

***For Information***

4. Aged Debtors at 2 February 2017. Report enclosed.
5. Update from Chairs of Advisory Committees.
6. Update from Subsidiary Companies.

## REPORT

To: Shetland Charitable Trust

Date: 16 February 2017

From: Chief Executive

Report: CT1702001

### Investment Review Report - Quarter to 31 December 2016

#### 1. Introduction

- 1.1 The Trust's external investments are managed on its behalf by fund managers. The purpose of this report is to review investment performance for the quarter to 31 December 2016.

#### 2. Detail

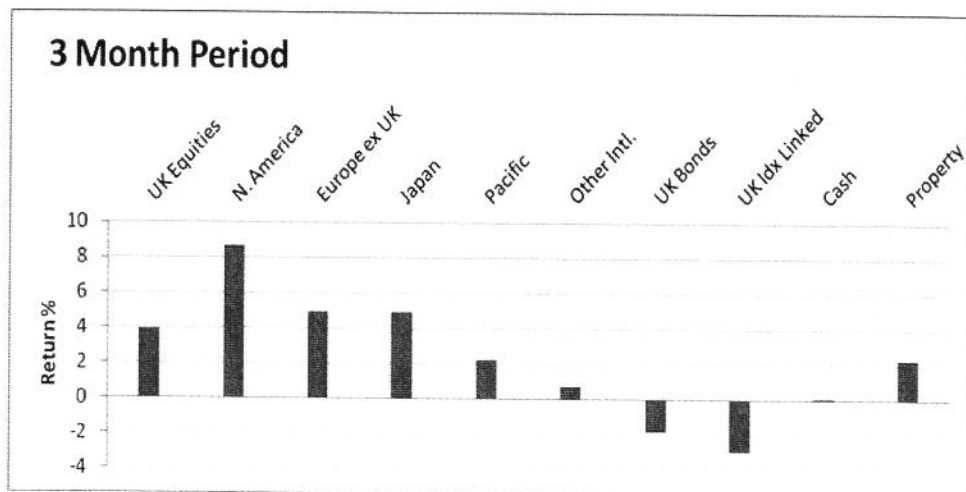
- 2.1 This report concentrates on the three-month period from October to December 2016. The report looks at the performance of the Trust's fund managers, the overall investment performance relative to the markets, the physical movement of funds, any changes from the investment strategy, and any other relevant issues relating to the investments over the period.
- 2.2 The Trust has four fund managers with total investments under management at the end of December 2016 of £219 million. The funds, type of mandate and market values at the end of December 2016 are as follows:

Manager	Mandate	% of Reserves	Market Value £m
BlackRock	Passive Equity	39%	86
Baillie Gifford	Active Equity	35%	76
Schroders	Property	16%	35
Insight	Diversified Growth Fund	10%	22

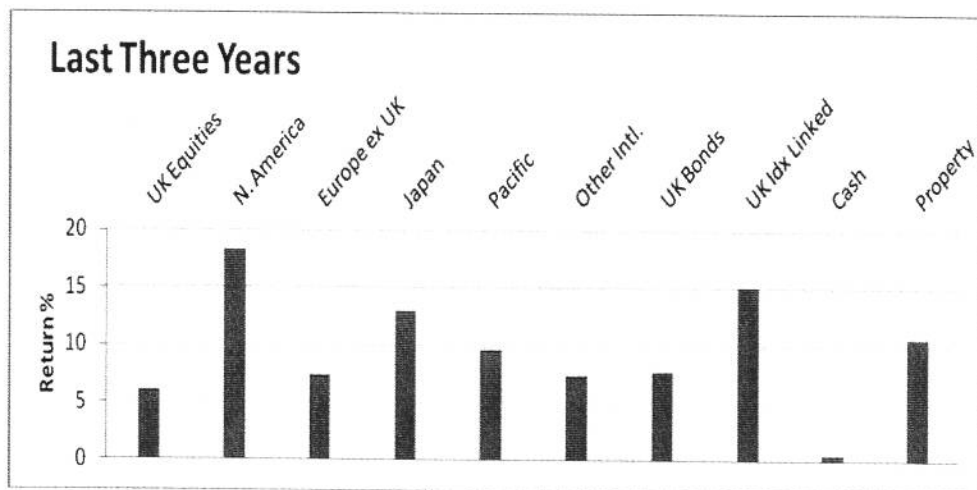
- 2.3 The Trust recently undertook an investment strategy review. The result of this review changed Insight's mandate from a Bond Mandate to a Diversified Growth Fund Mandate, and Baillie Gifford was awarded a new active equity mandate, funded from BlackRock and Insight. The reorganisation of the Trust's investments into the new strategy took place at the end of September 2016.
- 2.4 Individual fund manager performance is detailed later but there is the need to consider the effect of the markets themselves and of any cash withdrawals or injections into the funds. The following table shows the effect on the overall investments of these factors during the three month period.

	3 Months Oct – Dec	6 Months Jul – Dec
	£m	£m
Opening Market Value	219	209
Additions / (Withdrawals)	(0)	(3)
Investment Return	<u>0</u>	<u>13</u>
<b>Market Value Dec 2016</b>	<b><u>219</u></b>	<b><u>219</u></b>

- 2.5 The figures show an overall flat investment period over the three months. During this three month period the investment value has fluctuated between £222m and 216m.
- 2.6 As can be seen there were no additions or material withdrawals during the three month period to December 2016. There was one withdrawal during December, which was the usual quarterly dividend payment from BlackRock to the Trust of £0.4m.
- 2.7 Over the six month period to December 2016 the Trust's investments have increased in value by £10 million, which is a return of 4.8% over the period. The six month period has been dominated by the American Presidential Election and its result. Closer to home the markets have been watching the situation between Britain and Europe after the European Referendum result. The UK and American stock markets have risen over the period with the UK market benefitting from the falling value of the pound and the American stock market rising on stronger economic indicators, which resulted in an interest rate rise in December.
- 2.8 Over the three month period to December most equity markets rose on improved economic news with the UK market stock market benefitting from currency movements. Bond markets struggled on economic news and America increasing interest rates. Emerging markets also struggled due to uncertainty after the US Presidential election result. The UK property market was concerned as it was reported that companies might relocate to mainland Europe because of the European Referendum result. The investment markets performance by asset class over the three month period therefore looks like this:



2.9 This is only a three month snapshot of how the various investment classes and sectors have performed and it shows how, in the short term, values do fall as well as rise. History shows that investments in these asset classes over the long term are usually positive, which is the reason the investment strategy is based on a long term investment horizon. As an example of the differences in market returns over a slightly longer time period, the following graph shows the same asset class returns per annum over the last three years.



2.10 The fund manager has negligible influence over the market return but they may be required by the mandate agreement to invest into these markets. The main constituent of a fund's performance is the market return, where the fund is invested. A fund manager with an active mandate is asked to outperform a benchmark made up of market indexes, or cash plus a percentage return, whereas a fund manager with a passive mandate is aiming to match the market return.

2.11 In this environment the Trust's fund managers have, over the three month period to the end of December 2016, performed as follows:

<b>Manager</b>	<b>Mandate and Benchmark</b>	<b>Fund Return</b>	<b>Benchmark Return</b>	<b>% Return Compared to Benchmark</b>
BlackRock	Equity (Passive)	4.9	4.9	0.0
Insight	Diversified Growth Fund	0.0	0.1	-0.1
Schroders	Property	2.0	2.3	-0.3
Baillie Gifford	Global Equity	-5.1	6.5	-11.6

2.12 The fund with BlackRock is invested passively in equities, so the fund is aiming to equal the benchmark return. BlackRock achieved this aim over the three month period in a rising equity market place producing a return of 4.9%, which is a reflection of the mixture of returns from the various equity markets the fund invests into.

2.13 Insight's mandate was reorganised at the end of September 2016. They now have a diversified growth fund mandate which is about 10% of the Trust's investments. This is the first quarter's performance of their new mandate. The fund invests in various different asset classes to try and smooth investment returns over the long term. Over the quarter Insight produced a 0.0% return which was 0.1% behind the cash benchmark return.

2.14 Schroders property mandate produced a return of 2.0% over the three month period, which was below the property benchmark by 0.3%. Central London offices detracted from performance over the quarter which was expected after the European Referendum result. Retail warehouses also struggled while most other property investment added value.

2.15 Baillie Gifford was awarded an active equity mandate which was funded at the end of September 2016. This equity mandate is invested in Baillie Gifford's Long Term Global Growth Fund which invests in 30-40 equities. It is therefore a very concentrated portfolio with a high out performance target of +3% per annum. There will be periods when there is much volatility of returns with this mandate and this is evident in their first quarterly figures, where they have returned -5.1% compared to a benchmark of 6.5%.

The poor performance is attributable to a rally in financial equities and commodities over the quarter, which are two sectors that have little exposure at present in the portfolio and this has detracted from short term returns. Baillie Gifford has taken advantage of recent price weakness to add to certain holdings.

Baillie Gifford's philosophy is as a conviction manager, with a 5 to 10 year investment horizon and their returns have been impressive over these timeframes.

- 2.16 The Trust's overall total investment return for the three month period to the end of December 2016 was 0.5%, which was 4.1% below the benchmark return.
- 2.17 Since the end of December 2016 America has dominated the news with the inauguration of the new US President. This has created much uncertainty within the world's investment markets. The UK continues to debate how to proceed over Europe which again creates uncertainty within investment markets.

### **3. Financial Implications**

- 3.1 The long term investments and their performance are important to the Trust and the achievements of its outcomes and objectives.
- 3.2 It is recognised that the actual investment performance each year will be different to what is expected or required, however over the long term this will be monitored and reviewed to ensure that the Trust's external investments work towards meeting its long term objectives.
- 3.3 It is not likely that the Trust can expect a positive investment return from its investments every year but having robust governance and monitoring in place mitigates the financial risks and enables the Trust to take action at appropriate times to address poor performance by the fund managers.

### **4. Recommendations**

- 4.1 Trustees are asked to note this report.

Reference: IA7  
Date: 2 February 2017

Report Number: CT1702001





## REPORT

To: Shetland Charitable Trust

Date: 16 February 2017

From: Chief Executive

Report: CT1702002

### Management Accounts – Nine Months Ended 31 December 2016

#### 1 Introduction

1.1 The purpose of this report is to present the Trust's Management Accounts for the nine months ended 31 December 2016, for noting. These Management Accounts deal with all income and expenditure of the Trust.

#### 2 Management Accounts

2.1 Table 1 below shows the Summary Budget for the Charitable Trust for 2016/17 and the results in the nine months to 31 December 2016.

**Table 1: Summary Management Accounts 2016/17**

<b>Item</b>	<b>Current Budget £m</b>	<b>Spend to Dec 2016 £m</b>
Income	7.8	3.5
Disbursements	(8.4)	(7.8)
Management and Administration	(0.7)	(0.5)
Fund Managers Fees	(0.4)	(0.5)
Gain on Investments	-	19.5
<b>Total</b>	<b>(1.7)</b>	<b>14.2</b>

2.2 A more detailed analysis of the figures above is set out in Appendix A.

2.3 The main item of expenditure which is over budget is professional fees. This is due to the cost of the investment strategy review which was not included in the 2016/17 budget set in December 2015.

2.4 In the first nine months of the year the Trust made a gain on its investments of £19,530,065.

### **3 Financial Implications**

3.1 No direct financial implications flow from this information report.

### **4 Recommendations**

4.1 Trustees are asked to note the satisfactory financial performance to 31 December 2016, as shown in the Management Accounts in Appendix A.

Reference: DA5/1  
Date: 2 February 2017

Report No: CT1702002



# Shetland **Charitable Trust**

Management Accounts

9 Months Ended 31 December 2016

**Shetland Charitable Trust  
Income and Expenditure  
Period to 31 December 2016**

	9 Month Actual £	Annual Budget £	Variance £
<b>Income</b>			
Managed fund dividends	2,795,958	5,066,000	(2,270,042)
Agricultural loan interest	2,659	9,996	(7,337)
Local equity gift aid	(3,749)	1,744,794	(1,748,543)
Rental income	686,971	1,000,500	(313,529)
Bank interest	2,605	-	2,605
Miscellaneous income	-	-	-
	<u>3,484,444</u>	<u>7,821,290</u>	<u>(4,336,846)</u>
<b>Expenditure</b>			
Agricultural loan expenditure	(623)	-	(623)
Disbursements	(7,778,427)	(8,399,050)	620,623
Management and administration	(462,328)	(699,277)	236,949
Fund managers	(511,292)	(412,000)	(99,292)
	<u>(8,752,670)</u>	<u>(9,510,327)</u>	<u>757,657</u>
Gain on investments	19,530,065	-	19,530,065
<b>Surplus/(Deficit)</b>	<u><u>14,261,839</u></u>	<u><u>(1,689,037)</u></u>	<u><u>15,950,876</u></u>

**Shetland Charitable Trust**  
**Balance Sheet**  
**Period to 31 December 2016**

	Dec-16	
	£	£
Tangible fixed assets		4,766,269
Investments		<u>243,018,201</u>
		247,784,470
Trade debtors	4,436	
Prepayments and Accrued income	187,616	
Other debtors	-	
Bank	<u>688,841</u>	
	880,893	
Trade creditors	73,797	
Accruals and deferred income	274,388	
Amounts owed to subsidiary		
Other creditors	<u>3,233</u>	
	351,418	
Net current assets		<u>529,475</u>
		248,313,945
Pension liability		(1,279,000)
		<u>247,034,945</u>
Opening reserves		232,773,106
Surplus for period		<u>14,261,839</u>
Closing reserves		<u>247,034,945</u>

**Shetland Charitable Trust**  
**Rental Income**  
**Period to 31 December 2016**

	<u>9 Month Actual £</u>	<u>Annual Budget £</u>	<u>Variance £</u>
Sullom Voe Site	676,471	1,000,000	(323,529)
District heating	10,000	-	10,000
Shetland Golf Course	500	500	-
	<u>686,971</u>	<u>1,000,500</u>	<u>(313,529)</u>

**Shetland Charitable Trust**  
**Disbursements**  
**Period to 31 December 2016**

	9 Month Actual £	Annual Budget £	Variance £
Shetland Amenity Trust	1,281,159	1,281,159	-
Shetland Arts Development Agency	694,878	694,878	-
Shetland Recreational Trust	3,303,363	3,303,363	-
<b><u>Other Charitable Organisations</u></b>			
Disability Shetland Recreation Club	12,641	12,641	-
The Swan Trust	53,738	53,738	-
Shetland Churches Council Trust	40,503	40,503	-
Shetland Befriending Scheme	54,418	54,418	-
Citizens Advice Bureau	132,265	132,265	-
COPE Limited	154,967	154,967	-
Shetland Link Up	47,994	47,994	-
Voluntary Action Shetland	144,361	144,361	-
Festival Grants	22,500	22,500	-
Local Charitable Organisations	11,552	14,000	(2,448)
Royal Voluntary Service	46,985	46,985	-
<b>Sub Total Charitable Organisations</b>	<b>6,001,324</b>	<b>6,003,772</b>	<b>(2,448)</b>
<b><u>Schemes</u></b>			
Community Support Grants	-	-	-
Arts Grant Scheme	8,434	30,000	(21,566)
Senior Citizens Clubs	12,598	15,000	(2,402)
Support to Rural Care Model	1,726,629	2,302,172	(575,543)
Buses for Elderly and Disabled	32,071	48,106	(16,035)
<b>Sub Total Schemes</b>	<b>1,779,732</b>	<b>2,395,278</b>	<b>(615,546)</b>
<b><u>Direct Schemes</u></b>			
Planned Maintenance	-	-	-
<b>Sub Total Direct Schemes</b>	<b>-</b>	<b>-</b>	<b>-</b>
Surplus Grants Refunded	(2,628)	-	(2,628)
<b>Total</b>	<b>7,778,427</b>	<b>8,399,050</b>	<b>(620,623)</b>

**Shetland Charitable Trust**  
**Management and Administration Expenditure**  
**Period to 31 December 2016**

	9 Month Actual £	Annual Budget £	Variance £
Basic Pay and Allowances	165,657	290,000	(124,343)
Professional Membership Fees	167	1,500	(1,333)
Staff recruitment	524	5,500	(4,976)
Travel and Subsistence	5,744	7,240	(1,496)
Training and Staff Development	788	4,860	(4,072)
<b>Sub Total Staffing Costs</b>	<b>172,880</b>	<b>309,100</b>	<b>(136,220)</b>
<b>Operating Costs</b>			
Insurance	9,023	11,200	(2,177)
Administration	2,140	4,100	(1,960)
Supplies and Services	3,346	9,200	(5,854)
Bank Charges	113	500	(387)
Professional Fees: Other	41,029	40,400	629
External Audit Fees	25,800	25,000	800
Financial advice - internal investments	61,503	50,000	11,503
Trustees Expenses	2,729	5,000	(2,271)
Meeting expenses	1,270	4,690	(3,420)
Legal Fees	49,178	70,000	(20,822)
Trustee Recruitment Costs	-	5,000	(5,000)
<b>Sub Total Operating Costs</b>	<b>196,130</b>	<b>225,090</b>	<b>(28,960)</b>
<b>Property Costs</b>			
Energy Costs	3,513	7,000	(3,487)
Water Rates	738	2,000	(1,262)
Maintenance - Garrison Theatre	9,003	2,000	7,003
Maintenance - 22-24 North Road	13,685	20,260	(6,575)
Cleaning	580	1,700	(1,120)
<b>Sub Total Property Costs</b>	<b>27,519</b>	<b>32,960</b>	<b>(5,441)</b>
<b>Bad debt write off</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Bought In Services</b>			
Treasury	-	35,100	(35,100)
Payroll	-	2,946	(2,946)
Pension	-	3,090	(3,090)
Building Maintenance	46,400	50,470	(4,070)
Committee Services	-	12,360	(12,360)
Computer Services	4,080	4,202	(122)
HR Service	-	4,000	(4,000)
Messenger Service	-	1,030	(1,030)
Insurance Admin	-	2,369	(2,369)
Peninsula	1,594	2,160	(566)
Public Relations	13,724	14,400	(676)
<b>Sub Total Bought In Services</b>	<b>65,799</b>	<b>132,127</b>	<b>(66,328)</b>
<b>Total</b>	<b>462,328</b>	<b>699,277</b>	<b>(236,949)</b>



**Shetland Charitable Trust**  
**Investment expenses**  
**Period to 31 December 2016**

	<u>9 Month</u> Actual £	<u>Annual</u> Budget £	<u>Variance</u> £
Managed fund misc	80,297	-	80,297
Fund managers fees	-	-	-
Black Rock fees	87,156	132,000	(44,844)
WM Company fees	3,467	14,000	(10,533)
Northern trust fees	30,000	40,000	(10,000)
Insight investment fees	127,327	158,000	(30,673)
Schroders fees	62,135	68,000	(5,865)
Baillie Gifford fees	120,910	-	120,910
	<u>511,292</u>	<u>412,000</u>	<u>99,292</u>

