

General Manager: Dr Ann Black

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If calling please ask for
Mary Anderson
Direct Dial: 01595 744992

Our Ref: EMA/TA1/1
Your Ref:

Date: 4 May 2011

Dear Sir/Madam

You are invited to the following meeting:

**Shetland Charitable Trust
Council Chamber, Town Hall, Lerwick
Thursday 12 May 2011 at 10.00am**

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

Yours faithfully

(signed) Dr Ann Black

General Manager

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest.
- (d) Confirm minutes of the meeting held on 24 March 2011(enclosed).

For Decision

1. Future Governance Arrangements of Shetland Charitable Trust. Report enclosed.

For Information

2. Recommended Disbursements - Approvals. Report enclosed.
3. Recommended Disbursements – Social Care. Report enclosed.
4. Clarification of Reserves Policy. Report enclosed.
5. Fund Management Annual Review 2010/11. Report enclosed.
6. Fund Manager Transactions. Report enclosed.

The following items contain **Confidential** information

For Information

7. Art Therapy Update. (Copy to follow).
8. Loans to Local Industry - Agricultural Loan Scheme – Update on Loan Application LA2/1398. Report enclosed.
9. Sums Due But Unpaid Over One Month Old as at 31 March 2011. Report enclosed.

REPORT

To: Shetland Charitable Trust

12 May 2011

From: General Manager

Report: CT1105025

Future Governance Arrangements of Shetland Charitable Trust

1. Introduction

- 1.1 This report is presented to seek a decision in principle to change the governance arrangements of the Trust. Based on the legal advice received and subsequent discussions at the workshop on 14 April 2011, Trustees are asked to consider changing the composition of the Trustee Board.
- 1.2 Secondly, the report asks trustees to agree the next steps to progress such a change.

2. Background

- 2.1 At their meeting in February 2009, Trustees agreed to review the governance arrangements of the Trust in the light of current regulatory and legislative framework.
- 2.2 At a meeting on 8 September 2010, Trustees agreed to seek legal advice to determine if the constitution of the Trust required to be changed in light of current OSCR opinion and trust regulations, and to make such recommendations are necessary for the future governance of the Trust (Min Ref CT/57/10).

3. Present Position

- 3.1 The Legal Opinion has now been received from Mr Roy Martin QC, and its content was summarised at a workshop on 14 April 2011 by Mr Simon Mackintosh, the Trust's legal adviser. A transcript of that summary is attached as Appendix 1.
- 3.2 Mr Martin clearly believes that the Trust's constitution must be changed in order to comply with current legislation. Particular attention has been paid to the scenario where all "Councillor" Trustees are ruled out of the decision making process on the grounds of conflict of interest.
- 3.3 In order to address the points raised in the Legal Opinion and to comply with the requirements of OSCR, it is proposed to change the

composition of the Trustee board from 23 trustees; 21 of which are appointed by virtue of their office as Elected Members of Shetland Islands Council, and the remaining two as Lord Lieutenant and Head Teacher of Anderson High School, to have a smaller board with a minority of Councillor Trustees. A board of 15 Trustees has been proposed.

3.4 It is suggested that detailed proposals are worked up by the Governance Review Group in the light of the most recent legal advice and the views expressed by Trustees, both in the workshop and in subsequent submissions. These would be brought to a meeting of Trustees as soon as practical.

4. Financial Implications

4.1 There are no financial implications arising directly from this report.

5. Recommendation

5.1 Trustees are recommended:-

- (i) to note the outcome of the legal advice as discussed in the workshop on 14 April 2011;
- (ii) to accept that the constitution of the Trust must change with regard to the composition of the Trustee Board, and in particular that the majority of Trustees should be drawn from outwith the Council; and
- (iii) that the Working Group be asked to continue to work up detailed proposals to put before the Trustees.

Reference: AB/EMA/TA38

Report Number CT1105025-f

Appendix 1 – Notes of Points made by Simon Mackintosh in introducing Roy Martin QC's Opinion at Workshop of Trustees on 14th April 2011

Shetland Charitable Trust

**Notes of Points made by Simon Mackintosh in introducing Roy Martin QC's
Opinion at Workshop of Trustees on 14th April 2011**

The purpose of today is the normal one of a solicitor going over Counsel's advice with clients, considering it, discussing issues arising, dealing with follow up questions and considering where it might lead the Trust. It seems to me to be right that you have a chance to do that, to reflect on it, try out ideas, before you have to make decisions about how to take it forward. Time for decision making is at a later stage.

Question of confidentiality is for the Trustees of Shetland Charitable Trust – Senior Counsel was aware that his Opinion was likely to be published.

Senior Counsel is very definitive in his answer to Question 1. On Question 2 he gives background to allow you to look at possible new schemes of administration.

Structure of the Opinion

This covers the underlying Trust Law, 2005 Charities and Trustee Investment (Scotland) Act, OSCR's Guidance, and case law from Scotland and England ranging from Victorian to recent Charity Tribunal.

Paras 1 to 8 – these are the Memorial - information given and questions asked.

Opinion starts at Para 10.

10 to 40 – Sets out the facts and background as understood by Senior Counsel as follows:-

1. SIC – General powers and specific powers and makes the point at Para 10 that there is a range of powers the exercise of which will involve the exercise of discretion.
2. SCT – Para 11 onwards - Covers history, purposes and activities;

Para 14 - introduction of OSCR;

Para 16 – core of description of activities;

Para 17-21 – covers SLAP and other subsidiaries and the VEL transaction;

Para 21 -22 – Service Level Agreements and Admin Regulations.

3. The Issue

Para 25 – Role of OSCR - its aims are to ensure that SCT meets the Charity Test and the Trustees are able to fulfil their duties. History of SCT engagement with OSCR;

Para 28 – Senior Counsel’s conclusion – if these issues are resolved questions of accountability and independence are also resolved.

4. Legislation and Guidance

Para 29 -30 - Trustees taking first steps to fulfilment of 2005 Act duties;

Para 32 – 2011 recent Guidance on control and independence;

Para 34 – OSCR Lessons on “Closely Connected” Charities. Including a statement that the charity to remain able to carry on business needs governance structure which allows quorate decisions to be made even if a number of Trustees have to withdraw;

Para 35 – SCT study;

Para 37 – Fife Sports and Leisure;

Para 38 – Appointments process – including identifying the best people for the needs of the Charity. Older OSCR Guidance covers ensuring that the Board is “Fit for Purpose”;

Para 39 – OSCR Guidance – raises the question of whether current conflicts/frequent withdrawals prevent Trustees from usefully carrying out their Trustee duties. Emphases give priority to the interests of the charity;

Para 40 – Senior Counsel’s advice – OSCR Guidance is that a charity requires to have a governance structure which allows decisions to be made even where a number of Trustees have to withdraw because of a conflict of interest. In case of a Local Authority Charity the majority should be independent and the Chair independent.

5. Question 1

Para 41 – Constitution may not in all circumstances satisfy current law and practice – advisable to alter arrangements;

Para 68 – Senior Counsel concludes that he is satisfied that the Constitution of the Trust requires to be changed;

In between those paragraphs he looks at the functioning of the Trust and of the Council in questions of conflict of interest;

Senior Counsel explains the legal concept of conflict of interest as classically set out in Aberdeen Railway Company v Blaikie Brothers and its application over the years;

Para 50 – the principles to be applied are very clearly set out;

Para 51 – he does not see how conflicts can, in effect, be authorised here;

Para 54 - he starts to apply the principles using the information as to the functions of the two bodies set out at the start of the Opinion;

Para 56 – looks at particular transactions;

Para 59 – Senior Counsel introduces the idea that it is not just the transactions but the provision of services/facilities by SCT may be of advantage to SIC – there is a potential overlap of activities which gives rise to a potential conflict of interest for Councillor Trustees;

Para 60 – the making of decisions gives rise to conflict of interest both direct and indirect;

Paras 61/62 set this out very clearly covering direct and indirect conflict and how they arise. Senior Counsel in no doubt that there is a conflict;

Para 68 – Conclusion that the Constitution requires to be changed.

6. Question 2

Para 71 – get round the Section 66 duties by creating a body of Trustees not subject to the SIC conflict. Looks at examples and concludes (as does OSCR) that you may have a significant number of Trustees elected members of a relevant Local Authority and that seems entirely appropriate;

Para 78 – appropriate quorum is half the Trustees;

Para 79 – if 15 is desirable then 8 is your quorum. How does the Trust function adequately? Counsel draws a distinction with other Local Authority Charities – because SCT has a more separate and independent existence than other Trusts mentioned in the OSCR Guidance (which were effectively contracting out the management of Local Authority functions);

Para 82 – if you go for 15 Trustees, 8 quorum, 4 Councillor Trustees then even if the Councillor Trustees declare an interest you still have a substantial number of Trustees beyond the minimum, to give a robust decision;

Para 84 – look at it the other way round – you need to have the support of at least one non-Councillor Trustee even operating at the minimum quorum of 8 Trustees, in a non conflicted decision;

Para 85/86 – if you have 7 Councillor Trustees and a quorum of 9/10 out of 18 Trustees you would have 11 non-Council Trustees out of which to form a quorum. You would need to work the quorum provisions so that a minimum of a certain number of non-Councillor Trustees would be in favour of every decision

Para 87 – you might be able to devise other arrangements – OSCR Guidance shows that individual governance arrangements will be decided on in all the circumstances of each case;

Para 85 – Senior Counsel gives no definitive advice on how a new body of Trustees might be constituted;

Para 90 – these proposals would deal with accountability, independence from SIC and resolve governance issue with OSCR;

Para 91 – method of change would be through the reorganisation provisions in the 2005 Act;

Para 93 – in conclusion Senior Counsel refers to the Maidment/Dartford case in the Charity Tribunal in England. The Tribunal there said that you “need governance arrangements in place which will provide for the Committee [charity trustee equivalent] to be able to make quorate decisions in absence of those affected by conflict of interest”. This supports the approach taken by Senior Counsel here.

Simon Mackintosh
14th April 2011

REPORT

To: Shetland Charitable Trust

12 May 2011

From: General Manager

Report No. CT1105027

RECOMMENDED DISBURSEMENTS – APPROVALS

1. Background

- 1.1 On 30 March 2000, Trustees approved a report which authorised the then Director of Education and Community Services to act on behalf of the Trust and approve applications for community development and community support grants to organisations operating within Shetland. (Min. Ref. CT/19/00)
- 1.2 On 8 February 2006, Trustees approved a report which authorised the then Head of Service – Community Development to act on behalf of the Trust and approve applications for community arts grants to organisations and individuals operating within Shetland. (Min. Ref. CT/02/06)
- 1.3 It is a requirement that all approvals are reported to subsequent Trust Meetings.

2. Community Development Grants 2011/2012 Approvals - £1,268

- 2.1 The following community development grants were approved by the Head of Service, Community Development in the period from 14 March to 29 April 2011: -

Name of Organisation	Grant Approved (£)
Fetlar Community Association	500.00
1 st Sandwick/ Cunningsburgh Boys Brigade	768.00

3. Community Arts Grants
2010/2011 Approvals - £175
2011/2012 Approvals - £2,221

3.1 The following community arts grants were approved by the Head of Service, Community Development, in consultation with Shetland Arts, in the period from 14 March to 29 April 2011: -

	Grant Approved (£)
<u>2010/2011</u>	
Name of Organisation/ Individual	
Ms Joy Duncan	175
<u>2011/2012</u>	
Name of Organisation/ Individual	
Mrs Joy Adamson (on behalf of Deborah Adamson)	179
Mrs Valerie Wishart (on behalf of Sophie Wishart)	179
Shetland Folk Society	634
Mrs Janis Adamson (on behalf of Hannah Adamson)	384
Mrs Susan Keay (on behalf of Sarah Keay)	363
Mr Garry Spence (on behalf of Joe Spence)	182
Mrs Sheila Robertson	300

4. Recommendation

4.1 Trustees are asked to note the approvals listed in paragraphs 2.1 and 3.1.

Shetland Charitable Trust
Date: Our Ref: AJ/DA1

Report Number CT1105027-f

REPORT

To Shetland Charitable Trust

12 May 2011

From: General Manager

Report No. CT1105028

RECOMMENDED DISBURSEMENTS – SOCIAL CARE**1. Background**

1.1 This report concerns approvals by the Council's Head of Community Care in the period to 22 April 2011, in terms of Report Number CT/030/94, which was approved by the Trustees on 8 April 1994.

**2. Social Assistance Grant Scheme
2010/2011 Approvals - £1,782.93
2011/2012 Approvals - £1,079.74**

2.1 The Head of Community Care approved the following:-

	(£)
<u>2010/2011</u>	
5 Social Assistance Grants of up to £2,000 (Appendix A)	3,680.43
Add: Additional Funding	97.50
Less: Refund to budget	<u>(1,995.00)</u>
	<u>1,782.93</u>
<u>2011/2012</u>	
5 Social Assistance Grants	<u>1,079.74</u>

2.2 The grants would be allocated from the Social Assistance Grant Scheme budget head.

3. Recommendations

3.1 Trustees are asked to note the 2010/2011 approvals shown in Appendix 1, totalling £1,782.93.

3.2 Trustees are asked to note the 2011/2012 approvals shown in Appendix 2, totalling £1,079.74.

Shetland Charitable Trust
Date: 28 April 2011
Ref: AJ/DS1

Report No: CT1105028-f

**SOCIAL ASSISTANCE GRANT SCHEME at 31 March 2011**

Funds available in 2010/2011	£ 35,000.00
Less previously allocated	£23,393.98

Less the following: -

<u>Reference</u>	<u>Amount</u>
10/11 64	£ 243.49
10/11 65	£ 1,645.00
10/11 66	£ 1,260.00
10/11 67	£ 431.94
10/11 68	£ 100.00

(5) Approvals by Executive Director, Education and Social Care	£3,680.43
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Plus: Additional funding	ref 10/11 59	£52.50
	ref 10/11 63	£30.00
	ref 10/11 56	£15.00

Less: refund to budget	ref 10/11 30	£1,995.00
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Balance of Funds remaining (not required)	£9,823.09
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I confirm the above grants have been approved, for the relief of vulnerable persons in need by reason of age, ill health, disability or financial hardship.

Executive Director, Education and Social Care
Agent for the Trustees of Shetland Charitable Trust

SOCIAL ASSISTANCE GRANT SCHEME at 22 April 2011

Funds available in 2011/2012 **£ 35,000.00**

Less the following: -

<u>Reference</u>	<u>Amount</u>
11/12 01	£ 100.00
11/12 02	£ 57.60
11/12 03	£ 172.14
11/12 05	£ 500.00
11/12 06	£ 250.00

(5) Approvals by Executive Director, Education and Social Care **£1,079.74**

Balance of Funds remaining **£ 33,920.26**

I confirm the above grants have been approved, for the relief of vulnerable persons in need by reason of age, ill health, disability or financial hardship.

Executive Director, Education and Social Care
Agent for the Trustees of Shetland Charitable Trust

REPORT

To: Shetland Charitable Trust

12 May 2011

From: General Manager

Report: CT1105029

Clarification of Reserves Policy

1. Introduction


- 1.1 The purpose of this report is to clarify the Trust's Reserves Policy in respect of small to medium organisations, as there is some ambiguity in the interpretation of the reports which have been previously approved by Trustees.
- 1.2 Confusion has arisen as to whether the policy is applied to each year in isolation or on a cumulative basis.

2. Background

- 2.1 A reserves policy was approved by Trustees on 2 November 2006 (Report No. CT82F, Min.Ref. 81/06), which permitted small to medium organisations to retain a level of reserves for the Trust funded project/activity, which was equivalent to one twelfth of the Trust's grant award.
- 2.2 It became apparent that the policy was unfair to organisations, whose activities/ projects also attracted other sources of funding. An "Amendment to Reserves Policy" report was therefore approved by Trustees on 2 July 2009 (Report No. CT0907059, Min.Ref.49/09), which allowed organisations to retain a level of reserves, equivalent to one twelfth of all income for the year, in respect of Trust funded project/activity.

3. Clarification of Policy

- 3.1 The policy allows small to medium sized organisations (grants up to £500,000 per annum) to retain a level of reserves which is the equivalent of up to one twelfth of the funded project/activity's total income for the year.

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- 3.2 The reserves fund is an accumulative amount, brought forward from previous years, and funds in excess of the permitted retention are subject to repayment to the Trust.
 - 3.3 For the larger Trusts that receive over £500,000 per annum, the reserves level has been set at £50,000, rather than one-twelfth of income as defined previously.
 - 3.4 A copy of the Reserves Policy is attached in Appendix 1 of this report.

4. Financial Implications

- 4.1 There are no financial implications arising from this report.

5. Recommendation

- 5.1 I recommend that Trustees note the contents of this report which clarifies the Reserves Policy as attached.

Reference: AJ/TA36

Report Number CT1105029

Appendix 1 – Trust's Reserves Policy



RESERVES POLICY

Approved by Trustees on 2 November 2006, and amended on 2 July 2009

1 Background

1.1 The Accounting and Reporting by Charities: Statement of Recommended Practice (SORP) states:

“The Annual Report should contain a review of the financial position of the charity and its subsidiaries and a statement of the principal financial policies adopted in the year. In particular, the report should explain the charity’s policy on reserves stating the level of reserves held and why they are held. Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure”.

1.2 This Policy sets out the Trust’s position regarding the repayment of surpluses by organisations which it funds. Trustees have agreed, subject to certain criteria being met, to move away from the practice of requiring all surpluses generated on revenue activity to be repaid, to enable organisations to build up a small general reserve for unforeseen items.

1.3 It also clarifies the arrangements for approval of the carry forward of surplus balances, from year to year.

1.4 It amends the grant condition which requires organisations to return all surpluses to the Trust to enable them to retain surpluses in a general reserve.

1.5 The Reserve will be held on each organisation’s Balance Sheet, for the purpose of meeting unforeseen costs, which may occur from time to time. It will not be used for the purpose of “pump priming” further service developments, which may lead to increased financial requests from Shetland Charitable Trust. In essence, the funds will no longer sit in Shetland Charitable Trust’s bank account; they will be retained by each organisation in their own Bank Accounts.

2 The Policy

- 2.1 For small to medium sized organisations (grants up to £500,000 per annum), a suitable level of reserves (in terms of what the Charitable Trust provides funding for) is deemed to be one twelfth of their total funding for the projects which the Trust funds.
- 2.2 The Trust will not award extra funding to build up reserves. This would be built up from unspent balances over a period of years. Equally, we will continue to critically appraise budget applications, to ensure that organisations receive only the funding they need to deliver a range of services. This will avoid any potential "over bidding", in order to generate artificial surpluses to build up reserves.
- 2.3 Once organisations hold more than one twelfth of all funding, on a cumulative basis, for the projects funded by the Trust, the Trust will start to seek repayments of surpluses to bring the total amount held in general reserve down to the agreed level.
- 2.4 For the three larger Trusts that receive over £500,000 per annum, the reserve level has been set at £50,000, rather than one-twelfth of their income as defined above (purely on the basis that to do otherwise would involve fairly significant amounts).
- 2.5 This policy formalises the arrangement which allows organisations to retain small surpluses of less than £2,000, by amending the grant condition so that it does not state that all sums must be repaid.

3 Implementation

- 3.1 In order to implement this policy, the "funder of last resort" grant condition has been re-drafted to take account of the suggested levels of reserves, as follows:

"that the Grantee provides within six months of the end of the period for which the grant was given, accounts prepared in accordance with current regulations, showing how the grant was applied and what surplus remains (if any); and

that any unused monies at the end of the period funded be applied in the first instance to a general reserve in line with the Charitable Trust's agreed policy and thereafter be repayable to the Charitable Trust."
- 3.2 This policy seeks to clarify the practice of the repayment and/or retention of surplus balances, once the agreed level of Reserves had been reached. Only amounts over £10,000 require to be

reported to Trustees for approval. Below that amount, the General Manager has delegated authority, in consultation with the relevant Service Co-ordinator, to agree any retentions, so long as the funding is used:

- To support the service purpose and service levels set out in the relevant Service Statements; and
- for expenditure of a one-off nature, which will not result in future requests for ongoing funding commitments beyond the current level of support.

3.3 It will be normal practice to require organisations to repay the agreed surplus balances, in the first instance. The Trust will then arrange to make an additional grant award, for the agreed amount and the agreed purpose.

3.4 These arrangements will only apply to local charitable organisations, as local offices of national organisations should have significant reserves upon which to draw at a national or regional level.

AJ/TA36

REPORT

To: Shetland Charitable Trust

12 May 2011

From: Financial Controller

Report: CT1105030

Fund Management Annual Review 2010/11

1. Introduction

- 1.1 The purpose of this report is to inform Trustees of the up to date position and performance of the Trust's external investments with fund managers.
- 1.2 The Shetland Charitable Trust has a Service Level Agreement with the Shetland Islands Council for Treasury Services. This report is presented to the Shetland Charitable Trust under the terms of this Service Level Agreement.
- 1.3 The Charitable Trust has three fund managers with total investments under management at the end of March 2011 of £178.8 million. These investments are split between the following managers and asset classes as follows:

Funds under Management as at 31 March 2011

Manager	Fund	% of Reserves
BlackRock, previously Barclays Global Investors (BGI)	Equity	61%
Insight Investment Management	Bond	28%
Schroders	Property	11%

- 1.4 There are no fund manager presentations accompanying this report at this meeting. Due to the current situation where the Charitable Trust's fund managers also manage mandates for the Council or the Pension Scheme, the decision was taken to ask the fund managers to give one presentation, at the Special Shetland Islands Council meeting on the 26th May 2011. All Shetland Charitable Trust Trustees will be invited by the Council to attend the Council meeting if they so wish to hear the presentations. This allows the Trustees to

meet, hear and question their fund managers. As a fund manager's investment process is broadly similar for all of their mandates it was decided to adopt this approach for the annual review. This will save time at the Charitable Trust meeting and avoid unnecessary repetition of presentations.

- 1.5 This report reviews the annual performance of each manager and concentrates mainly on each fund over the short term i.e. 2010/11. I will review each fund manager in turn and compare their performance against the market performance where they were asked to invest, and also against the additional out performance target we asked them to achieve.
- 1.6 Due to the nature of the investments, we take a long-term investment view, generally a five-year period. I will therefore not only look at each manager's performance over 2010/11 but will also look at their performance over a five year period, or from the inception of the mandate if that is shorter.

2. Background

- 2.1 The external investments of the Charitable Trust (ie other than those invested in the local economy) are co-ordinated by the Council's Treasury function. The Council and Pension Fund's reserves are also co-ordinated by the Council's Treasury function. This approach delivers a unified approach; ensures that all the funds benefit from the knowledge and experience of Council Officers; and provides useful comparisons.
- 2.2 The Charitable Trust's Funds, their managers, type of mandate and market value are listed below:

Manager	Mandate	Market Value (£m)	
		2011	2010
BlackRock	Equity	110	119
Insight	Bonds	49	49
Schroders	Property	20	13
		179	181

During 2010/11 the overall value of the Charitable Trust's funds decreased by £2 million.

- 2.3 In the main, this report concentrates on manager performance relative to the markets but we also need to consider the effect of any cash withdrawals or injections to the funds and the performance of the markets themselves. These influences can easily alter the absolute fund value.

- 2.4 The following table shows the effect on the fund due to withdrawals/additions and the market movement.

	SCT Funds £ million
As at 31.03.10	181
(Withdrawals)/Additions	(13)
Market Movement	11
<u>As at 31.03.11</u>	<u>179</u>

The figures show how the market movement has benefited the overall investments by £11 million during the year, which is £2 million less than the withdrawals amount. All of the asset classes the Trust invested into during 2010/11 produced positive returns and increased in value, and this is reflected in the £11 million market movement. The withdrawals figure from the investments relates to cash transferred back to the Charitable Trust's bank account, these withdrawals were from BlackRock, hence the fund's drop in value.

- 2.5 The 2010/11 market performance by asset class is set out below:

		%
Equities:	UK	8.7
	North America	9.6
	Europe (Ex UK)	7.5
	Japan	-4.0
	Pacific (Ex Japan)	14.6
	Emerging	8.2
Bonds:	UK	5.1
	Overseas	2.1
	Index-Linked	6.5
Property		10.7
Cash		0.4

As can be seen from the asset returns in 2010/11 equities produced good returns with all regions apart from Japan returning positive figures. The fund manager has negligible influence over the market's 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 is only asked to out perform the market return, i.e. a European equity scenario in 2010/11 where a fund manager is asked to out perform the market by 1% would equate to an 8.5% return.

- 2.6 This report reviews performance in 2010/11; a quick update for the start of this financial year 2011/12 shows an unsettled world global economic situation with concerns in Europe over the economies of Greece, Ireland, Portugal and Spain, inflation issues in China and continuing financial constrain in the UK.

3. Fund Manager Review

- 3.1 The rest of this report takes each mandate in turn and discusses manager performance.
- 3.2 A Fund Manager's performance is measured against a specific fund benchmark, which is made up of market indices of the countries where they invest.
- 3.3 A Fund Manager's target is a level of out performance above the benchmark that is seen as achievable with a low level of measured risk on a given mandate. The Manager will actively seek to produce investment returns in order to achieve the stated target. Performance at or above target is desirable but any returns above the benchmark will add value to the fund above the market return.

3.4 BlackRock – Equity Fund

- 3.4.1 During the financial year 2009/10 many of the UK's main banks were selling off non-core assets to raise cash, rationalise the business etc. Barclays Bank was no exception and sold their fund management business BGI to BlackRock. BlackRock were initially a large US fund management business but over the past few years they have acquired Merrill Lynch and now BGI, to become one of the largest global fund managers.
- 3.4.2 Any change to a fund manager is monitored closely. The Charitable Trust's investment consultants Hymans Robertson were consulted and they were comfortable with the purchase of BGI by BlackRock. BlackRock are an active investment manager so their purchase of BGI, a passive fund manager, fits well into the overall company with no disruption to BGI's operations. A passive investment process is predominately computer controlled and as expected no issues or problems have occurred. In fact the larger BlackRock business may produce investment opportunities for the Charitable Trust.
- 3.4.3 BGI were initially appointed as the Charitable Trust's transition manager and in that role they have the capability to hold funds on a passive basis, i.e. track the market indexes. The Charitable Trust is currently making use of this facility after the decision to terminate Capital International's management of their mandate in 2008, and until an investment review is conducted, which will form part of the Charitable Trust's three yearly financial review in 2011.
- 3.4.4 BGI as transition manager conducted the transfer of the assets from Capital International in 2008 and performance monitoring commenced on 1st October 2008.
- 3.4.5 This is a pure equity fund with a benchmark of 50% UK Equities and 50% Overseas Equities. As the fund is invested passively the benchmark and the target return are the same, i.e. one aim, the index return. For performance comparison purposes the fund return is only compared against the benchmark (index) return.

As the fund is trying to achieve the index return it is the closeness of the performance to the index that is important. A passive investment takes away the manager risk leaving just the market return risk, which over the long term generally provides a positive return.

- 3.4.6 The following table sets out in summary the performance of BlackRock versus the benchmark return for 2010/11 and also on a cumulative basis since October 2008.

Fund Performance versus Benchmark

	Fund Return (%)	Performance v Benchmark (%)
2010/2011	7.5	-0.1
Two and a half years Oct 08 – Mar 11	35.7	0.0

The performance v benchmark figure gives the percentage that the fund has out or under performed the benchmark return (market indices).

- 3.4.7 The Equity fund with BlackRock increased in value by 7.5% in 2010/11, which is only 0.1% below the benchmark return. This shows the fund has mirrored the market return very closely.
- 3.4.8 On a cumulative basis over the two and a half year rolling monitoring period the fund has equalled the benchmark return, which is the long-term investment aim of the fund manager. During this period the fund has increased in value by 35.7%, which equates to a return of 13% per annum.

3.5 Insight - Bonds

- 3.5.1 During the financial year 2009/10 the Bank of Scotland sold their fund management business Insight Investment Management to Bank of New York Mellon (BONYM). BONYM have various investment businesses throughout the world but generally leave the companies alone to continue with their specialist services. Hymans Robertson were consulted and they were positive on this sale, as BONYM did not own a UK investment house with Insight's specialities, and they were aware of BONYM's history of buying good companies and leaving them alone. No issues or problems were incurred around the take-over with the mandate, or since the ownership change.
- 3.5.2 Insight Investment Management's bond mandate started performance monitoring on 1st October 2003.

- 3.5.3 Insight's performance target for the Bond Fund is to beat a specific benchmark by 0.5% per annum.
- 3.5.4 The following table sets out in summary the performance of Insight versus the benchmark and the performance target in 2010/11, and also on a cumulative basis over a five-year investment period.

Bond Fund Performance versus Benchmark and Target

	Fund Return (%)	Performance v Benchmark (%)	Performance v Target (%)
2010/11	6.3	1.3	0.8
Five years 06/07 to 10/11	31.5	3.1	0.5

The performance v benchmark figure gives the percentage that the fund has out or under performed the benchmark return (market indices).

The performance v target figure gives the percentage that the fund has out or under performed their set target.

- 3.5.5 The Bond Fund with Insight returned 6.3% in 2010/11, which was 1.3% above the benchmark return and 0.8% above the target set by the Trust. This is a very good performance by Insight and the second consecutive year they have out performed the benchmark and target.
- 3.5.6 On a cumulative basis over the five-year rolling monitoring period Insight, are 3.1% above the benchmark return and 0.5% above the target. Insight has out performed over the last two years and it has taken them above the long-term performance target. The fund over the five-year period has increased in value by 31.5%, which equates to a per annum return of 5.6%.

3.6 Schroders - Property

- 3.6.1 Schroders were awarded a £20 million UK property mandate, and performance monitoring began on the 1st July 2009. So far they have invested £18.2 million, as they are being cautious and only investing when opportunities appear at the right price with good long term potential.
- 3.6.2 The benchmark for this fund is based on a 100% UK property investment. The fund manager does however have the scope to invest up to a maximum of 30% of the fund in overseas property, if attractive investment opportunities exist. Their performance target for this fund is to beat this specific benchmark by 1.0% per annum.
- 3.6.3 Schroders also held for the Charitable Trust, in a separate account, the Lionbrook Property Unit Trust. Rothschild originally

acquired this Property Trust but it was transferred to Insight on a holding basis when they bought Rothschild's investment business. This investment was transferred to Schrodgers in 2009/10 and they were asked to reorganise the investment, sell units etc to achieve a position where they could transfer the reorganised fund into the main mandate. Schrodgers managed to sell the investment during 2010/11, and the resulting cash was transferred into their mandate. The transfer value of the Lionbrook Property Unit Trust into the main fund was £4.6 million.

3.6.4 The following table sets out in summary the performance of Schrodgers versus the benchmark and the performance target in 2010/11, and also on a cumulative basis over a five-year investment period.

Property Fund Performance versus Benchmark and Target

	Fund Return (%)	Performance v Benchmark (%)	Performance v Target (%)
2010/11	7.8	-1.2	-2.2
One and three quarter years July 09 – Mar 11	21.0	-4.0	-5.7

The performance v benchmark figure gives the percentage that the fund has out or under performed the benchmark return (market indices).

The performance v target figure gives the percentage that the fund has out or under performed their set target.

3.6.5 The Property Fund with Schrodgers returned 7.8% in 2010/11, which was 1.2% below the benchmark return and 2.2% below the target set by the Trust.

3.6.6 On a cumulative basis over the one and three quarter year rolling monitoring period Schrodgers are 4.0% below the benchmark return and 5.7% below the target. The fund over the one and three quarter year period has increased in value by 21.0%, which equates to a per annum return of 11.5%.

3.6.7 Schrodgers are still in the process of building up the portfolio and this makes evaluating the fund's return more complicated, as many of the investments were only purchased during the financial year 2010/11. The fund over the relatively short investment period is under the benchmark return but it will be the long-term fund performance that the manager will be evaluated against.

4. Financial Implications

4.1 Performance by a Fund Manager will have long-term financial consequences for the Charitable Trust.

- 4.2 Long-term positive absolute returns will benefit the capacity of the Trust to finance Trustees spending plans.
- 4.3 There are no decisions from this report, so there are no immediate financial consequences.

5. Conclusions

- 5.1 BlackRock were only 0.1% away from the benchmark return they were trying to achieve in 2010/11. Cumulatively over the two and a half years they are equal to the benchmark return, which is their long-term aim. The fund over this period has also increased in value by 35.7%. This investment with BlackRock is on an index-tracking basis and was initially put in place as a holding position until the outcome of the Charitable Trust's financial review in 2011.
- 5.2 Insight out performed the benchmark and the target in 2010/11. Due to Insight's out performance over the last two years their cumulative performance over the five-year monitoring period is now above the benchmark and the target. Insight are using the flexibility afforded to them with this mandate to achieve long term returns above the markets they invest into, and are therefore adding real value to the fund.
- 5.3 Schroders under performed their benchmark by 1.2% in 2010/11 and are cumulatively over the one and three quarter years period 4.0% below their benchmark. Most of the mandate's investments were only purchased during 2010/11 so their investment contribution to date will be limited. Schroders have so far invested £18.2 million over the first one and three quarter years of their mandate as they look to build a portfolio of investments for the long term.
- 5.4 Continued investor confidence saw the financial markets rise throughout 2010/11. The Charitable Trust's investments benefited from these rising markets with the fund managers all reporting increases in fund values, which resulted in an overall investment return of £11 million in 2010/11.

6. Recommendations

- 6.1 I recommend the Charitable Trust note with satisfaction the performance of Insight Investment Management in 2010/11.
- 6.2 I recommend the Charitable Trust note the performance of BlackRock in 2010/11.
- 6.3 I recommend the Charitable Trust note with dissatisfaction the performance of Schroders in 2010/11.

REPORT

To: Shetland Charitable Trust

12 May 2011

From: Financial Controller

Report: CT1105031

FUND MANAGER TRANSACTIONS

1. Introduction

1.1 Shetland Islands Council provides Treasury support to Shetland Charitable Trust under the terms of a Service Level Agreement (SLA).

2. Investment Decisions

2.1 Appendix A lists the investment decisions made by Insight Investment Management Limited during the period from 1 February and 31 March 2011.

2.2 Appendix B lists the investment decisions made by BlackRock Investment Management (UK) Limited during the period from 1 February and 31 March 2011.

2.3 Appendix C lists the investment decisions made by Schroder Investment Management Limited during the period from 1 February and 31 March 2011.

2.4 These appendices list purchases in order of transaction size and sales in order of the size of the gain or loss made on the transaction.

2.5 The Fund Managers make investment decisions based on the terms of Investment Management Agreements.

3. Movement on Charitable Trust Funds

3.1 The following table shows the movement on the Charitable Trust funds for both the previous financial year and the current financial year to date:

2010/11 to 31 Mar 2011		2011/12 to 22 Apr 2011	
	£ million		£ million
Market Value at start	180.9	Market Value at start	178.8
Market Movement	10.9	Market Movement	(0.7)
Injection/(Withdrawal)	(13.0)	Injection/(Withdrawal)	0.0
Market Value at close	<u>178.8</u>	Market Value at close	<u>178.1</u>

(These are unaudited figures and are for guidance only.)

4. Recommendation

4.1 The Trustees are asked to note this report.

2

INSIGHT INVESTMENT MGMT REPORT - PURCHASES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	PURCHASE PRICE (£)
	QF = quoted fixed UF = unquoted fixed			
UNITED KINGDOM				
UK(GOVT OF) 3.25% TSY GILT 07/12/11 GBP	QF GB GB	18/03/2011	727,000.00	740,275.02
ILF GBP LIQUIDITY FD	DEP	09/02/2011	675,000.00	675,000.00
UK(GOVT OF) 4.5% STK 07/12/2042 GBP100	QF GB GB	23/03/2011	648,000.00	672,727.68
UK(GOVT OF) 4.25% STK 07/12/2055 GBP100	QF GB GB	10/03/2011	671,000.00	668,651.50
ILF GBP LIQUIDITY FD	DEP	16/02/2011	620,000.00	620,000.00
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	03/03/2011	527,840.00	513,166.05
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	03/03/2011	368,000.00	371,587.94
UK(GOVT OF) 0.5% I/L STK 22/3/50 GBP	QF GIL GB	28/02/2011	313,000.00	316,408.23
UK(GOVT OF) 2.5% I/L STK 23/08/11 GBP	QF GIL GB	21/03/2011	97,000.00	299,574.80
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	31/03/2011	232,000.00	288,647.73
UK(GOVT OF) 2.5% I/L STK 23/08/11 GBP	QF GIL GB	03/03/2011	93,000.00	287,435.10
UK(GOVT OF) 3.25% TSY GILT 07/12/11 GBP	QF GB GB	18/03/2011	247,000.00	251,537.39
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	02/03/2011	196,160.00	191,726.78
UK(GOVT OF) 2.5% I/L STK 23/08/11 GBP	QF GIL GB	31/03/2011	51,000.00	157,386.00
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	03/03/2011	105,000.00	152,890.11
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	08/03/2011	134,000.00	135,737.60
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	02/03/2011	98,000.00	112,578.01
ILF GBP LIQUIDITY FD	DEP	07/03/2011	100,000.00	100,000.00
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	25/02/2011	83,000.00	94,992.58
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	08/03/2011	64,000.00	94,370.94
UK(GOVT OF) 0.625% I/L STK 22/11/42 GBP	QF GIL GB	08/03/2011	89,000.00	92,628.42
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	01/02/2011	60,000.00	74,345.86
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	15/02/2011	60,000.00	74,038.40
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	15/02/2011	61,000.00	73,451.23
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	01/02/2011	61,000.00	73,419.28
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	21/03/2011	66,000.00	68,133.09
ILF GBP LIQUIDITY FD	DEP	09/03/2011	55,000.00	55,000.00
UK(GOVT OF) 4.5% GILT 07/03/13 GBP0.01	QF GB GB	02/02/2011	46,000.00	48,877.30
UK(GOVT OF) 2.5% I/L STK 23/08/11 GBP	QF GIL GB	03/03/2011	12,000.00	37,086.00
ILF GBP LIQUIDITY FD	DEP	01/03/2011	35,000.00	35,000.00
ILF GBP LIQUIDITY FD	DEP	22/03/2011	35,000.00	35,000.00
ILF GBP LIQUIDITY FD	DEP	03/03/2011	30,000.00	30,000.00
UK(GOVT OF) 1.25% I/L STK 22/11/55 GBP	QF GIL GB	18/03/2011	12,000.00	18,021.10
UK(GOVT OF) 0.625% I/L STK 22/03/40 GBP	QF GIL GB	18/03/2011	10,000.00	10,370.92
ILF GBP LIQUIDITY FD	DEP	08/03/2011	10,000.00	10,000.00
ILF GRP LIQUIDITY FD	DEP	25/03/2011	10,000.00	10,000.00
ILF LIQUIDITY FD	DEP	14/03/2011	5,000.00	5,000.00
ILF GBP LIQUIDITY FD	DEP	01/03/2011	824.42	824.39
ILF GBP LIQUIDITY FD	DEP	01/02/2011	419.44	419.44
TOTAL UNITED KINGDOM				<u>7,496,308.89</u>
OVERSEAS				
UNITED STATES TREAS BDS DTD 00219 4.25% DUE 11-1 QF GB US		09/02/2011	1,186,000.00	678,346.21
TOTAL OVERSEAS				<u>678,346.21</u>

INSIGHT INVESTMENT MGMT REPORT - SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF UNITS	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
	QF = quoted fixed UF = unquoted fixed				
UNITED KINGDOM					
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	03/03/2011	525,000.00	661,853.95	28,601.99
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	31/03/2011	352,000.00	449,007.97	24,427.61
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	21/03/2011	234,000.00	299,338.85	17,089.41
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	02/03/2011	113,000.00	142,789.92	6,489.98
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	08/03/2011	165,000.00	189,242.44	3,732.54
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	21/03/2011	82,000.00	95,447.54	3,254.74
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	15/02/2011	511,000.00	575,147.15	3,099.78
UK(GOVT OF) 1.25% I/L STK 22/11/27 GBP	QF GIL GB	25/02/2011	38,000.00	47,868.20	2,032.82
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	01/02/2011	132,000.00	148,945.26	1,175.69
UK(GOVT OF) 1.25% I/L STK 22/11/2032	QF GIL GB	15/02/2011	132,000.00	148,736.37	966.80
UK(GOVT OF) 1.125% I/L STK 22/11/37 GBP100	QF GIL GB	25/02/2011	38,000.00	46,589.35	842.80
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	18/03/2011	26,000.00	29,930.24	586.12
ILF GBP LIQUIDITY FD	DEP	14/02/2011	685,000.00	685,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	11/03/2011	680,000.00	680,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	17/02/2011	40,000.00	40,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	15/02/2011	35,000.00	35,000.00	0.00
ILF GBP LIQUIDITY FD	DEP	24/03/2011	5,000.00	5,000.00	0.00
UK(GOVT OF) 3.25% TSY GILT 07/12/11 GBP	QF GB GB	23/03/2011	659,000.00	670,914.72	-137.00
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	08/03/2011	168,000.00	189,356.41	-251.73
UK(GOVT OF) 4.25% STK 07/03/2011 GBP100	QF GB GB	02/02/2011	48,000.00	48,158.88	-430.35
UK(GOVT OF) 0.75% I/L STK 22/11/2047	QF GIL GB	28/02/2011	309,000.00	348,043.09	-700.45
UK(GOVT OF) 0.625% I/L STK 22/11/42 GBP	QF GIL GB	03/03/2011	185,000.00	191,964.36	-2,012.66
UK(GOVT OF) 4.5% BDS 07/09/2034 GBP	QF GB GB	18/03/2011	246,000.00	253,756.38	-3,215.22
UK(GOVT OF) 4.25% STK 07/12/2046 GBP100	QF GB GB	18/03/2011	737,000.00	739,520.54	-10,324.66
UK(GOVT OF) 4.25% GILT 07/12/2040 GBP	QF GB GB	08/02/2011	698,000.00	664,775.20	-24,150.80
BOS(SHARED APP) A/BKD FRN 7/2072 GBP(BR)	UF CB GB	23/02/2011	1,665,808.43	1,665,809.30	-767,068.54

TOTAL UNITED KINGDOM

9,052,196.12	-715,991.13
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OVERSEAS

UNITED STATES TREAS BDS DTD 00219 4.25% DUE 11-1 QF GB US	02/03/2011	1,186,000.00	694,367.99	16,021.78
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TOTAL OVERSEAS

694,367.99	16,021.78
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BLACKROCK REPORT – PURCHASES

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	PURCHASE PRICE (£)
	QE = quoted equity UE = unquoted equity			

UNITED KINGDOM

BLACKROCK ADV (UK) CHARITRAK COMMON INVEST IN UE UT GB	01/02/2011	161,133.50	1,720,825.20
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TOTAL UNITED KINGDOM			<u>1,720,825.20</u>
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OVERSEAS

BLACKROCK AM (IE) INDEX SELECTION JAPAN IDX	UE UT IE	28/03/2011	19,207.10	108,822.45
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TOTAL OVERSEAS			<u>108,822.45</u>
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BLACKROCK REPORT – SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
	QE = quoted equity UE = unquoted equity				

UNITED KINGDOM

NO UK INVESTMENTS SOLD

TOTAL UNITED KINGDOM				<u>0.00</u>	<u>0.00</u>
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OVERSEAS

BLACKROCK AM (IE) BGI PACIFIC RIM INDEX ACC	UE UT IE	01/02/2011	43,087.43	1,053,658.09	352,589.27
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BLACKROCK AM (IE) INDEX SELECTION JAPAN IDX	UE UT IE	01/02/2011	99,007.87	602,055.92	104,145.41
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BLACKROCK AM (IE) BGI NORTH AMERICAN IDXNAV	UE UT IE	01/02/2011	7,505.88	65,111.20	12,895.25
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TOTAL OVERSEAS				<u>1,720,825.21</u>	<u>469,629.93</u>
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SCHRODERS REPORT - PURCHASES

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	PURCHASE PRICE (£)
	QE = quoted equity UE = unquoted equity			
UNITED KINGDOM				
MAYFAIR CAP REITFUND	UP UT GB	21/03/2011	199.59	198,991.23
THREADNEEDLE INV STRATEGIC PROPRTY FUND IV T	UP UT GB	01/02/2011	192.00	192,000.00
TOTAL UNITED KINGDOM				<u>390,991.23</u>

OVERSEAS

NO OVERSEAS INVESTMENTS PURCHASED

TOTAL OVERSEAS				<u>0.00</u>
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SCHRODERS REPORT - SALES

NAME OF SECURITY	AREA	DATE	NUMBER OF SHARES	SELLING PRICE (£)	PROFIT/ (LOSS) (£)
	QE = quoted equity UE = unquoted equity				
UNITED KINGDOM					
NO UK INVESTMENTS SOLD					
TOTAL UNITED KINGDOM				<u>0.00</u>	<u>0.00</u>

OVERSEAS

NO OVERSEAS INVESTMENTS SOLD

TOTAL OVERSEAS				<u>0.00</u>	<u>0.00</u>
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