Finance and Resources Committee – 22 November 2010

Investment update and decision on portfolio diversification

Executive summary and recommendations

Introduction
In the Investment Policy, Section 5, the professional fund manager (Rensburg Sheppards Investment Management Ltd) is invited to provide a summary report of fund performance and address any questions that the Committee may have relating to the funds under professional management.

Decision
The Committee is requested to note the Rensburg Sheppards report and approve the continued appointment of the professional fund manager, as appropriate.
Additionally, the Committee is also requested to consider the current range of products within the HPC investment portfolio managed fund.

Background information
The Rensburg Sheppards funds managed achieved an annual return of 10.2% for the 12 months ending September 2010. This compares with a 14.8% for the 12 months ending September 2009. Rensburg Sheppards cited the benchmark[1] performance for the annual period ending September 2009 as 10.6% return. A breakdown of the individual elements of the portfolio, with benchmark comparisons, can be seen in appendix one and the previous year in appendix two.

The investment strategy requires that “the portfolio to be managed in a way that will balance immediate income with long term capital appreciation” in accordance with HPC’s Investment Policy document. The Finance & Resources Committee confirmed that the portfolio should remain positioned on “the lower risk side of neutral.” In February 2008, the Finance & Resources Committee extended the ethical restrictions on the managed funds to include a ban on investments in alcohol production and gambling, as well as tobacco (see appendix three).

Concern was raised at an earlier Finance and resource Committee that the portfolio is vulnerable to large value fluctuations and would like to seem the risk reduced. Rensburg Sheppard’s have reviewed the current portfolio and have produced an analysis of the current portfolio and propose a more diversified mix.

[1] A weighted average of the comparable index returns over the period.

A summary of their recommendation can be seen at appendix four. More detail will be provided by James Minett during his presentation.

To note: During the current financial year Investec plc acquired the remaining 53% of Rensburg Sheppards that they did not already own. Appendix five is the communication from Rensburg Sheppards to this effect and an announcement that Jonathan Wragg has taken on the role of Chief Executive.

The latest quarterly report from Rensburg Sheppards can be seen at appendix six.

Resource implications
Nil

Financial implications
Rensburg Sheppards charge a flat fee and transaction charges equating to about 0.5% of the funds managed as commission.

Appendices
Appendix One - Rensburg Sheppards 2010 Performance Summary
Appendix Two - Rensburg Sheppards 2009 Performance Summary
Appendix Three - Investment strategy lodged with Rensburg Sheppards
Appendix Four – Investment portfolio
Appendix Five - Rensburg Sheppards Ownership
Appendix Six - Quarterly Valuation report from Rensburg Sheppards

Date of paper
8 November 2010

APPENDIX ONE

Health Professions Council

PERFORMANCE SUMMARY

As at 30th September 2010

REF : COUNC0004/RL0

TOTAL RETURN PERFORMANCE SUMMARY

ASSET ALLOCATION %	SECTOR	3 MONTHS 30/06/10 - 30/09/10 FUND %	3 MONTHS 30/06/10 - 30/09/10 INDICES %	12 MONTHS 30/09/09 - 30/09/10 FUND %	12 MONTHS 30/09/09 - 30/09/10 INDICES %	
8.4	UK Gilts	2.4	3.6	7.1	7.3	FTA Brit Govt Fixed All Stocks
2.3	UK Index Linked	2.1	3.6	11.8	9.5	FTA Brit Govt Index -Linked All Mats
9.0	Other UK Fixed Interest	4.6	5.1	8.7	11.8	Merrill Lynch £ Non-Gilts All Stocks
19.7	Total UK Fixed Interest	3.3	3.6	8.4	7.3	FTA Brit Govt Fixed All Stocks
53.9	UK Equities	12.8	13.6	12.0	12.5	FTSE All Share
			13.8		11.8	FTSE 100
9.9	USA	5.2	5.7	15.6	11.8	S & P 500 Composite
4.4	Europe	6.9	13.6	-2.4	1.6	FTSE World Europe Excl UK
2.0	Japan	-3.3	-0.0	-5.6	1.0	TOPIX
3.2	Other Pacific Basins	14.5	14.8	34.8	17.5	FTSE World Asia Pacific Excl Japan
1.2	Emerging Markets	8.6	11.6	21.6	21.7	MSCI Emerging Markets
0.0	International Equities	3.6	8.2	-5.5	9.5	FTSE World Excl UK
20.7	Total Overseas Equities	6.0	8.2	10.4	9.5	FTSE World Excl UK
5.7	Cash	0.0	0.0	0.1	0.0	BoE Base Rate (-0.5%)
100.0	TOTAL ASSETS	8.4	9.9	10.2	10.6	Bespoke

Performance figures are calculated gross of fees but net of any transaction expenses, if applicable.

APPENDIX TWO

Health Professions Council

As at 30th September 2009

REF : COUNC0004/RLO

TOTAL RETURN PERFORMANCE SUMMARY

ASSET ALLOCATION %	SECTOR	3 MONTHS 30/06/09 - 30/09/09 FUND %	3 MONTHS 30/06/09 - 30/09/09 INDICES %	12 MONTHS 30/09/08 - 30/09/09 FUND %	12 MONTHS 30/09/08 - 30/09/09 INDICES %	
8.9	UK Gilts	1.4	3.1	12.1	11.2	FTA Brit Govt Fixed All Stocks
2.3	UK Index Linked	3.2	3.1	N/A	4.0	FTA Brit Govt Index -Linked All Mats
9.7	Other UK Fixed Interest	9.4	9.2	12.2	12.2	Merrill Lynch £ Non-Gilts All Stocks
20.9	Total UK Fixed Interest	5.2	3.1	10.4	11.2	FTA Brit Govt Fixed All Stocks
53.8	UK Equities	23.8	22.4	13.7	10.8	FTSE All Share
			21.9		9.5	FTSE 100
9.3	USA	18.0	19.0	14.0	3.8	S & P 500 Composite
5.0	Europe	25.2	29.5	22.8	16.5	FTSE World Europe Excl UK
2.3	Japan	9.8	9.4	32.7	12.8	TOPIX
2.3	Other Pacific Basins	21.9	29.5	51.5	39.2	FTSE World Asia Pacific Excl Japan
0.6	Emerging Markets	20.5	24.6	31.2	33.1	MSCI Emerging Markets
0.6	International Equities	10.7	21.7	2.0	12.1	FTSE World Excl UK
20.1	Total Overseas Equities	18.9	21.7	21.0	12.1	FTSE World Excl UK
5.2	Cash	0.0	0.0	1.8	0.9	BoE Base Rate (-0.5%)
100.0	TOTAL ASSETS	17.1	17.1	14.8	11.8	Bespoke

Performance figures are calculated gross of fees but net of any transaction expenses, if applicable.

Rensburg Sheppards

APPENDIX THREE

As at 30th September 2010

INVESTMENT STRATEGY

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). The strategy is defined by the 'Investment Policy Document' produced annually by the Finance Director. The Trustees have requested that the portfolio should remain positioned on the "lower risk side of neutral" 21.11.05. In September 2007 a bespoke bechmark was proposed and subsequently adopted based on 20% FT Government All Stocks, 55% FT All Share Index, 20% FT World (ex UK) Index and 5% cash.

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.

ETHICAL POLICY

No tobacco, alcohol production and gambling operations.

DIVIDENDS

Transferred to deposit monthly

INTEREST

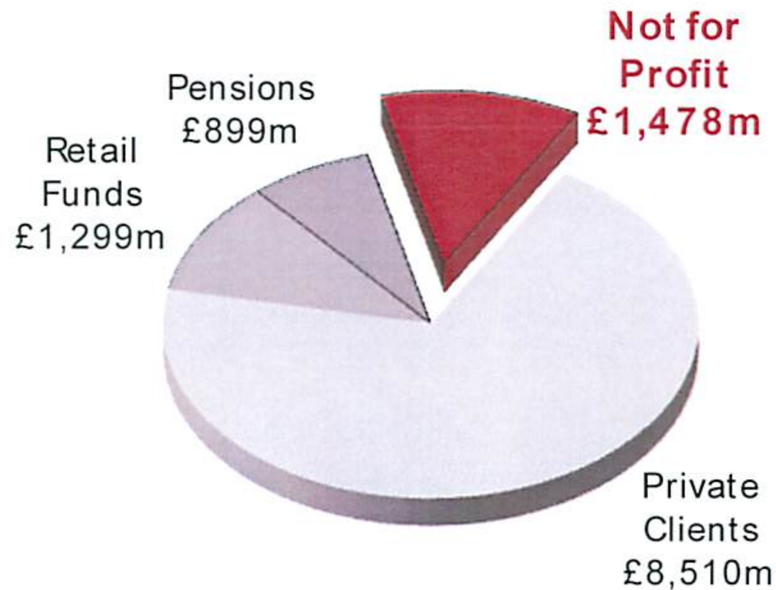
Transferred to deposit monthly

Date last reviewed - 15 JUN 2010

APPENDIX FOUR

Rensburg Sheppards

Rensburg
Sheppards
Charities Division



- **Not for Profit over 11% of firm's assets**
  - core part of business
- **2nd largest firm for segregated charity portfolios***
  - breadth of experience
- **Size allows flexibility of offering**
  - ability to deliver to your needs

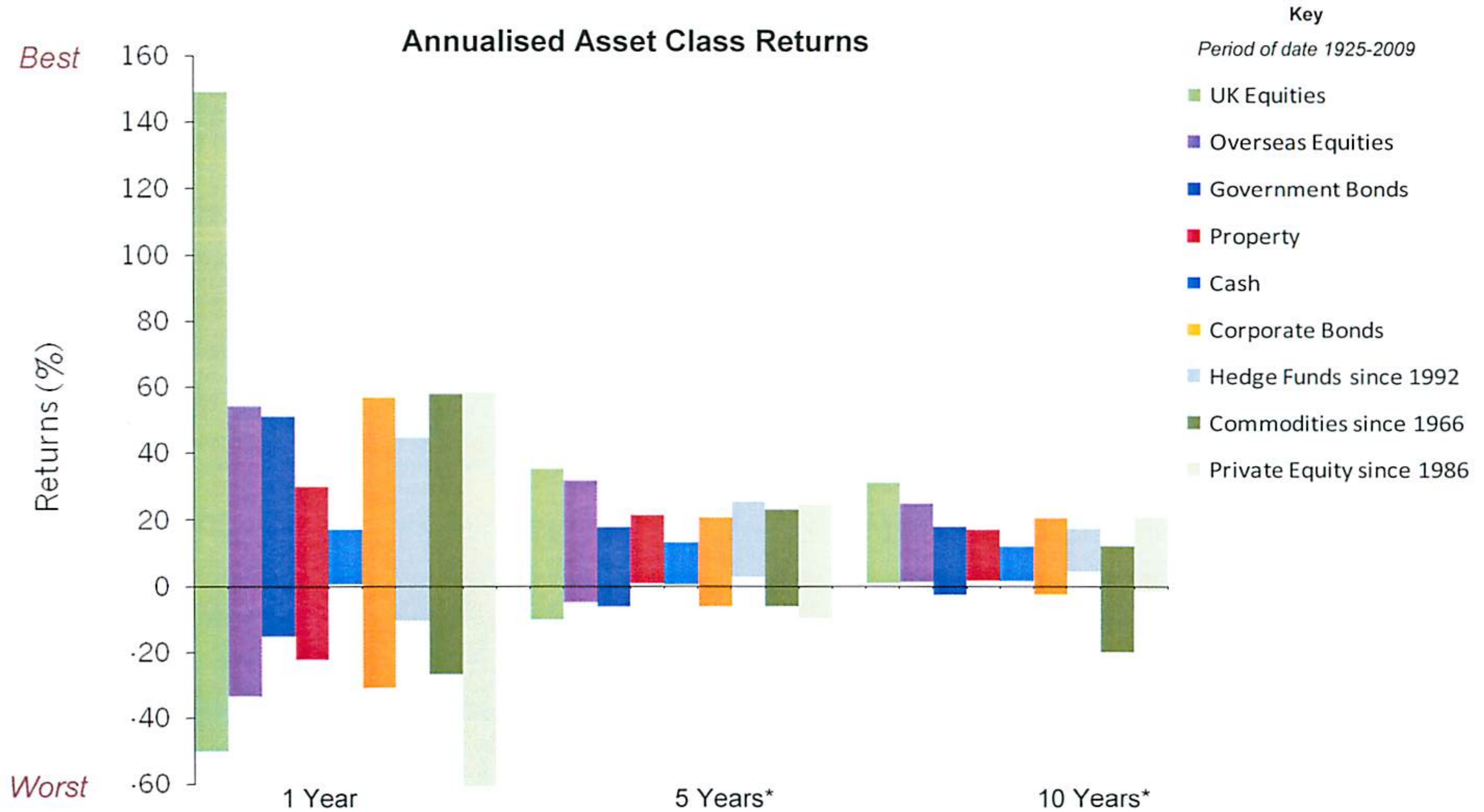
** Source: Charity Finance*

Source: Rensburg Sheppards March 2010

Understanding your needs

Range of returns from different asset classes

Rensburg Sheppards
Charities Division



*Rolling annualised returns

Time horizon matters

Looking to reduce volatility

Rensburg Sheppards
Charities Division

Asset Class	Current Portfolio %	More Diversified Potential Portfolio %	Projected Nominal Returns			
			Total Return %	Capital Return %	Income %	Dividend Growth %
UK Govt Securities	20	20	3.8	-0.2	4.0	0.0
Index Linked	-	-	3.2	2.0	1.2	2.0
Corporate Bonds	-	11	5.1	0.0	5.1	0.0
UK Equities	55	30	8.9	5.0	3.9	3.8
Overseas Equities	20	20	9.6	7.4	2.2	5.0
Infrastructure	-	6	7.8	2.2	5.6	1.6
Commerical Property	-	8	8.5	1.7	6.8	1.4
Cash	5	5	0.5	0.0	0.5	0.0
TOTAL	**100**	**100**				

Asset Class	%	%
Historic Nominal Return	11.0	10.4
Historic Volatility	19.1	13.6
Income	£65,209	£74,173
Prospective Total Return	7.6	7.1
Dividend Growth	3.0	2.0

Multi Asset Classes

– diversifies risk and reduce volatility

APPENDIX FIVE

Rensburg Sheppards

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DX 132316 Finsbury Square

Received by Finance
2 5 OCT 2010
Health Professions Council

Our Ref : JM/VM/COUNC0004

22nd October 2010

G Butler Esq
Health Professions Council
Park House
184 Kennington Park Road
London
SE11 4BU

Dear Gary

I thought you might be interested to see a short note from our new Chief Executive, Jonathan Wragg, which I enclose.

This gives you some background on Jonathan and his recent appointment and also brings you up to date with our latest corporate developments and future plans.

We are very encouraged about the opportunities that Jonathan outlines as they represent real progress for Rensburg Sheppards. It goes without saying that our approach to looking after your investments will continue in exactly the same way that it always has done.

Please do not hesitate to contact me if you have any questions.

Kind regards.

Yours sincerely

James Minett
Senior Investment Director

Encl.

Belfast
Cheltenham
Edinburgh
Farnham
Glasgow
Leeds
Liverpool
London
Manchester
Reigate
Sheffield

Mixed Sources
FSC

Rensburg Sheppards

Investment Management

October 2010

I am pleased to write to you on a number of matters concerning Rensburg Sheppards Investment Management.

First, I would like to introduce myself. I have recently taken over as Chief Executive, having been Finance Director for the last decade. It is a great privilege to have the opportunity to lead this business at such an important stage in its development.

As you may already be aware, in March of this year, Investec plc made an offer to acquire the remaining 53% of Rensburg Sheppards that they did not already own. The board welcomed this offer, not least because of the excellent and long standing working relationship enjoyed between the two companies over the previous five years. The transaction was successfully completed on 25th June and my predecessor, Steve Elliott, will now be heading all Investec's wealth & investment businesses, of which Rensburg Sheppards is an important part. I would like to pay tribute to Steve's leadership over this period and look forward to continuing to work closely with him.

As part of these developments, we believe it makes sense to review our name with a view to converting to the Investec name during the course of next year. This will help us to raise our profile and assist in growing the business. However, while our external identity will change in due course, the fundamentals of our business will remain set in stone. We will continue to offer our clients independent, professional and personal advice. Service is at the heart of our business and your relationship with your own investment manager remains central to our approach.

If you do have any questions, please contact your investment manager who will be pleased to help.

Kind regards,

Jonathan Wragg

Chief Executive
Rensburg Sheppards Investment Management

Registered Office

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Facsimile +44 (0)113 245 1188

Email info.leeds@rsim.co.uk
Web www.rensburgsheppards.co.uk

Group Offices

Belfast Cheltenham Edinburgh Farnham Glasgow Leeds Liverpool London Manchester Reigate Sheffield

Member firm of the London Stock Exchange. Member of Liffe.
Authorised and regulated by the Financial Services Authority.
Rensburg Sheppards Investment Management Limited is registered in England.
Registered No. 2122340.

Appendix Six

Rensburg Sheppards

Rensburg Sheppards Investment Management Limited

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Web www.rensburgsheppards.co.uk
DX 132316 Finsbury Square

Member firm of the London Stock Exchange. Member of Liffe
Authorised and regulated by the Financial Services Authority
Rensburg Sheppards Investment Management Limited is registered in England [illegible]
Registered office: Quayside House, Canal Wharf, Leeds [illegible]
Registered No. [illegible]

Our Ref : JM/VM/COUNC0004

12th October 2010

Charlotte Milner
Health Professions Council
Park House
184 Kennington Park Road
London SE11 4BU

Dear Charlotte

Health Professions Council

Please find enclosed the latest quarterly investment report to 30th September 2010. The portfolio enjoyed a much better three months than the prior quarter and this has been reflected in the value which has increased by £147,708 to £2,087,179 at 30th September.

The strong recovery in equity markets, in particular, drove overall returns during the quarter. This translated into a total return for the portfolio over three months of 8.4% against 9.9% for the benchmark. The performance over 12 months is in line with the benchmark, returning 10.2% against the benchmark return of 10.6%.

Market Background

The tone of stock markets has improved over the past quarter, with global shares rising by 8.7% in Sterling terms, and they are now moving back towards the year's highs after plumbing lows only in June and have risen by 6% since the turn of the year. The UK market has led over the three month period, rising by over 13%, with Continental Europe delivering fractionally more (13.6%) boosted by currency as sovereign debt worries receded. But, the US which had held up better in the last quarter, appreciated by 5.7%. Political events in Japan kept that market weak, but authorities are attempting to tackle yen strength head on which is at variance with, and only worsening, the weak state of the economy. Emerging markets were firm, rising by just under 12% in Sterling – the Pacific basin leading (+14.8%). Reviving risk-appetites can also be seen in narrowed corporate bond spreads and firming commodity prices.

Over the three months however, "super sovereign" government bond yields (a shorthand for the government bonds that are untarnished by fears of default, such as Germany, the US, Switzerland and the UK) have also fallen by between ¼% and ½%. This has presented a conundrum, since equity and bond markets appear to be sending contradictory signals – equities that the world (and corporate profits) will muddle through, bonds that a much less benign outcome is in store.

Belfast
Cheltenham
Edinburgh
Farnham
Glasgow
Leeds
Liverpool
London
Manchester
Reigate
Sheffield

FSC Mixed Sources
Product group from well managed forests and other controlled sources

The crux of the debate between bond investors and equity "bulls" is whether or not the global economy (or rather the de-leveraging developed world) will make a successful transition to sustainable (employment-led) growth, or whether it will slip back into "double-dip" recession.

Our view is that equity markets are more "right" than bond markets at this point. We have resisted becoming disheartened by the waning momentum implied by economic data for a number of reasons. Firstly because, looking at the world as a whole, it suggests a dull growth picture not a disastrous one. This is a disappointment for those who had hoped for a "V" shaped recovery, but not for those of us who expected something less exciting.

Secondly, we take a positive view on the two economies that are the "swing factors" in the global outlook – China and the USA. Survey data suggests that China is making good progress in engineering a "soft landing", whilst in the USA we believe there is a strong case to be made that employment growth should accelerate soon (or to use the same analogy, economic "take off" will be achieved).

Thirdly, this is one of the rare occasions when we can be confident that we understand the reasons for the deterioration in the economic indicators. This can be ascribed to the sudden eruption of the European sovereign debt crisis, which was an unexpected event with clear negative systemic ramifications and, arguably, inclined already-skittish Chief Executive Officers to defer any planned increase in costs, at least until the picture had cleared. With the European monetary authorities eventually taking effective measures to address the crisis and with no sign that corporations are actively resuming cost reduction initiatives (they may not be adding workers, but they are not actively shedding them either) we expect that we will soon see evidence that animal spirits are re-asserting themselves. The recent surge in merger and acquisition activity is a good omen in this regard.

Finally, we believe that the recapitalised banking sector is both able and increasingly willing to support growth. Reviving appetites to lend should not be stifled by recent regulatory proposals, which have struck a good balance that will improve systemic robustness without imposing an unrealistic compliance schedule.

We are not blinkered optimists, however. Government bond prices are high and the gold price is rising (+23% in Dollars in 2010) for a reason – it is because the risks are also high. The embers of the sovereign debt fires are cooling, but still have the potential to be fanned into life again. It is now commonly accepted that Greece will restructure its debt at some stage, but action in bond markets suggests a similar outcome cannot be ruled out for Portugal and possibly Ireland too if its actions to recapitalise its banks fall short.

We are also wary of new affronts to stability. Specifically, it is possible that currency markets could be turned from shock-absorbers in the process of global growth rebalancing, into battlegrounds for beggar-thy-neighbour policies. Europe's debt tribulations had the beneficial effect of weakening the

Euro and Japan has recently begun to intervene to lower the Yen. Since both currencies started from an overvalued position, both moves are consistent with "shock absorbing". However, everyone can not devalue against everyone else and American politicians are clearly becoming increasingly impatient with China (partly blamed for Yen strength), whose moves to revalue the Yuan against the Dollar have been modest so far. Currency volatility increases both cyclical and systemic risks, as it imposes greater costs on businesses and also raises the spectre of protectionism.

To a large extent, the UK is a sideshow in the context of these wider global issues. Heavily reliant upon still-overvalued housing, economic growth is understandably sluggish and likely to remain so, but the new administration has shown that they understand the UK's potentially vulnerable position in their first "austerity" budget. This aims to eliminate the "primary" budget deficit by 2015 – we shall find out exactly how this is to be achieved in October. The reward has been a rally in Sterling (+5% v the Dollar over the quarter), even if the Euro has recovered some lost ground in the quarter (£/€ +5% year to date).

Performance and Investment Strategy

UK gilt market yields are now at the lowest level for decades; a government security redeemable in 10 years time yields just 3.1% per annum, to redemption, below the current inflation rate. Corporate and financial bonds also rose (and yields fell) as investor confidence improved and low rates of interest on cash continue to drive deposit holders to seek higher returns. Given the relatively low yields now available in bond markets we have preferred to hold shorter dated maturities which offer more protection should yields rise due to either rising inflation (possibly as a result of further quantitative easing) or renewed concerns about government finances. The timing of any such unwinding is uncertain and we will therefore continue to run a relatively full exposure to bonds at the expense of cash for the time being. The recovery in corporate bonds meant that the bond proportion has appreciated by 3.3% against 3.6% for the FTA Government All Stocks. Performance is ahead over the year at 8.4% compared to 7.3% for the index.

UK equities were the strongest asset class and your performance came in marginally behind the FTSE All Share Index, returning 12.8% against 13.6% for the index. Performance is in line over the year. For the quarter, benefits from sector positioning were held back by a slightly defensive bias. We continue to favour companies offering steady growth in these uncertain times and do not envisage increasing the risk profile of the UK equity strategy in the near future. However, we do believe that merger and acquisition activity will increase as stronger companies look to acquire weaker competitors and reap the benefits of consolidation, rather than spend capital on new capacity. Consequently, we have purchased a holding in the M&G Recovery Fund which has been successfully managed by Tom Dobell for nearly a decade. Reed Elsevier, the Anglo Dutch scientific, medical, legal and business publishing company was acquired on hopes that the new management will improve both the profitability and the market valuation of the company, after several years of underperformance. We have also added to the existing holding of Barclays Bank.

The biases within the overseas part of your portfolio were generally positive but the more defensive stance of some of the trusts, particularly in Europe, led to underperformance. With the outlook for growth in developed markets still subdued we are unwilling to unduly increase exposure to more cyclically oriented funds in these areas at this time. We will maintain the overweight stance in the Far East and Emerging Markets at the expense of the US and have purchased a holding in the Impax Asian Environmental Fund. The rational for investing is that as emerging economies grow, the demand for power, water and waste services grows at a rate faster than the already fast economic growth. Also, some countries already have pollution problems and as both China and India lack large oil deposits they have increased need for alternatives. In developed countries (like the UK) some of the technologies like wind and solar power are reliant on subsidies to make them economically viable which make them vulnerable to government's loss of will or ability to finance them. Therefore we would prefer to invest in an Asian fund where the lower wage rates make these new technologies more competitive and where much of the manufacturing now takes place. William Calvert (the manager) of the Axa Framlington Emerging Markets Fund and his team have decided to move to Polar Capital. As a result the opportunity was taken to sell the holding and reinvest in the Lazards Emerging Markets Fund which has a very good track record and may well close shortly to new investors. We have also taken the opportunity of selling the Axa Framlington Bio-Tech Fund, which had performed well, to help fund the Lazard purchase.

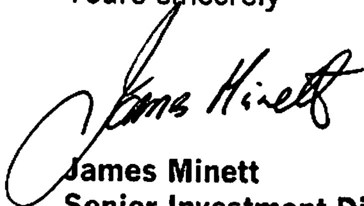
Overseas returns for the portfolio were 6.0% for the quarter against 8.2% for the FTSE World ex-UK index but are still ahead on the year, having returned 10.4% against 9.5% for the index.

Outlook

Looking forwards, our view of the path of the post "great recession" world still envisions a muted and extended recovery. In the context of very low equity valuations relative to "risk free" assets, all of the above reasons suggest that shares in blue chip, globally exposed equities should prove rewarding investments over the coming year. At the same time, clearly the risks in the transition to sustainable growth have not gone away, and nerves are still raw for investors, consumers and business leaders. Against this backdrop, reactions to modest set backs can quickly cause disproportionate damage, so there is still some value in an "insurance policy" against disaster (bonds), however expensive it appears. The key, as ever, is in the balance.

With kind regards.

Yours sincerely



James Minett
Senior Investment Director
Encl.