

5 Investment Performance

5.1 A full list of investments held on 28 February 2026 is provided at **[Annex 1]** and a copy of our lending list of 28 February 2026 is provided at **[Annex 2]**. The table below provides a summary of funds invested and income earned at the end of February 2026.

	Funds invested on 28 February 2026	Average duration to maturity	Weighted average rate of return	SONIA benchmark February 2026	Interest / dividends earned	Gross annualised return
	£m	Days	1 April to 28 February 2026 %	%	1 April to 28 February 2026 £	%
Cash flow	26.70	4	3.81	3.72	1,146,410	4.07
Core cash	36.00	154	4.00	3.62	1,285,060	4.30
Long term	2.00				66,060	3.39
Long term (LPT)	0.58				3,690	--
Medium term	4.25				181,440	4.66
Total	69.53				2,682,660	--

Table 1

Property funds pay dividends quarterly. The return quoted above is based on dividends received for the period April to December 2025.

- 5.2 **Cash flow and core cash investments.** Interest earned of £2,682,660 from surplus cash flow and core cash balances to the end of February has exceeded expectation when compared to the revised estimate for the same period. The positive variance of £225,300 is primarily driven by the slower-than-anticipated reduction in the Bank Rate, which has resulted in sustained higher interest yields on deposits.
- 5.3 The Council takes advantage of MUFG's benchmarking service which enables performance to be gauged against MUFG's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 31 December 2025 the Council's return was 3.98% (purple diamond) above the local benchmarking group average of 4.86%. MUFG's predicted return is between the upper and lower boundary indicated by the diagonal lines. The Council's risk exposure remains consistent with the local authority average.
- 5.4 Only cash flow and core cash returns form part of the benchmarking data. The additional return the Council makes from its property fund, and diversified income fund investments are not included. The data also excludes any short-term borrowing costs authorities may have incurred to meet payment obligations;

however, no such costs have been incurred to date, and none are anticipated during the remainder of 2025/26.

- 5.5 **Long term investment.** £5m was originally invested in property investment funds, spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time.
- 5.6 Since 2024, structural changes within a number of the Council's externally managed investment portfolios, together with increased volatility and uncertainty in financial markets, have led fund managers to review and revise their strategic positions. In accordance with CIPFA's Treasury Management Code, the Council has continued to monitor these developments and assess the implications for security, liquidity and yield.
- 5.7 However, certain decisions taken by the fund managers, specifically the wind-up of one fund and the merger of another, were outside the Council's control. In both cases, the position of smaller investors was not prioritised, resulting in outcomes that required the Council's dis-investment from these holdings. These actions have been managed in line with the Council's approved Treasury Management Strategy and with due regard to the principles of prudent risk management set out by CIPFA.
- 5.8 During the period 1 April 2025 to 31 December 2025, as property funds are reported quarterly, the £2.58m investment in property funds generated dividends of £69,750 which represents an annualised return of 3.39% (4.21% in 2024/25).
- 5.9 Table 2 sets out the long-term investment in LAPF Property Funds. While this fund is presently demonstrating a capital loss, the net benefit since inception remains positive at £414,670. There are currently no plans to disinvest from this holding.
- 5.10 The sales value at the end of February 2026 vs initial purchase prices are as follows:

Property fund	Purchase price	Sale value at date of purchase	Sale value 28 February 2026	28 February sale value above (below) purchase
(Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	a	b	c	price (c-a)
	£	£	£	£
LAPF (Primary, July 2017)	1,000,000	922,200	897,070	(102,930)
LAPF (Primary, June 2018)	1,000,000	922,200	860,110	(139,890)
Total change in principal	2,000,000	1,844,400	1,757,180	(242,820)
			Total dividends received to December 2025	657,490
			Net benefit since inception	414,670

Table 2

- 5.11 Since inception, the Council have received dividends from The Local Authority Property Fund investment totalling £657,490.
- 5.12 Hermes Property Fund merged with L&G Pensions on 15 August 2025, which prompted an involuntary dis-investment of the Council's holding in the fund. The capital realisation amounted to £908,350, giving rise to a capital loss of £91,650, which will be offset by an earmarked reserve for long and medium term investments.
- 5.13 Following the withdrawal of several investors, Lothbury Property Trust were unable to secure a viable path forward and was officially terminated on 30 May 2024. All remaining assets have now been sold, and the company is in the process of being wound up. The overall recovery of capital investment totalled £1,417,980 against the initial investment. This will result in the loss on the property fund being fully recognised in the 2025/26 financial statements.
- 5.14 Table 3 to provide details of the repayment of capital investment from the sale of assets due to the termination of the Fund on 30 May 2024:

Property fund <small>(Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)</small>	Purchase price	Sale value at date of purchase	Principal Investment Returned	Principal Investment Balance Outstanding
	a £	b £	c £	£
Lothbury Property Trust	2,000,000	1,900,700	1,417,980	(582,020)
Total dividends received to February 2026				382,720
Net balance to breakeven point				(199,300)

Table 3

- 5.15 Taking into account the dividends received since the fund's inception, the investment would have reached its breakeven point if we had been able to recover a further £199,300.
- 5.16 To safeguard the Council's position, an earmarked reserve was established at the outset of entering into medium and long term investments to mitigate potential capital losses. The revised revenue estimates have drawn down against this reserve to ensure the overall revenue budget is protected and that financial impact of the investment losses is appropriately contained.
- 5.17 As part of the current year budget review, income projections from property funds have been adjusted downward to reflect changes in shareholdings and their capacity to generate future dividends. However, the overall income from the property funds is expected to exceed the revised budget for the 2025/26 financial year by circa £14k.
- 5.18 Members are reminded that higher yielding investments (e.g. property, equities) have the potential to fluctuate in value, both up and down. It is this feature which

makes them unsuitable for short term investment where certainty over value at maturity is a key criteria. The Council's property fund investments are not required to meet day to day spending commitments and will only be realised should a higher yielding opportunity be identified.

- 5.19 **Medium term investment.** £4.25m of the Council's expected medium term cash balances together with new money derived from the sale of assets has been invested in externally managed diversified income funds. These investments will generate an annual income stream and will provide capital appreciation over time.
- 5.20 During the period April 2025 to February 2026 the £4.25m investment in multi asset funds generated dividends of £181,440 which represents an annualised return of 4.66%.

6 Financial and Value for Money Considerations

- 6.1 The Bank Rate was held at 3.75% in March with all nine MPC members voting unanimously to maintain the current level. This reflects a shift from earlier expectations of a possible rate cut, as the conflict in the Middle East has caused a significant rise in global oil and gas prices, increasing near-term inflation risks and delaying the anticipated easing cycle.
- 6.2 The MPC has warned that inflation could rise to around 3.5% in the next two quarters, driven by higher energy costs which will feed through to both household bills and business operating costs. The Committee also noted that the longer elevated energy prices persist, the greater the risk of second-round effects through wages and price-setting behaviour.
- 6.3 If the conflict persists, markets are pricing in a rate hike in June, with a further hike at the September meeting and a third pencilled in for February 2027, reversing earlier expectations of cuts. Governor Bailey has tried to calm the markets by saying those decisions will have to be taken, but holding the rate is the right place to be at the moment.
- 6.4 While the Council has benefited from higher-for-longer interest rates, the Bank of England cut the rate to 3.75% in December 2025 which is expected to be held for the near term. If rate hikes do come to fruition, the Council will carefully consider its cash management strategy, aiming to balance liquidity needs with the opportunity to secure higher investment returns for longer. Key considerations include:
- 6.4.1 **Short-Term Liquidity:** Ensuring sufficient cash is readily available to meet operational and unforeseen financial commitments.
- 6.4.2 **Longer-Term Investments:** Identifying opportunities to invest surplus cash (up to 1 year) at fixed higher rates and benefit from any higher rates made available for investments before the easing cycle re-commences.

- 6.4.3 **Diversification:** Allocating funds across a range of investment vehicles to mitigate risk while maximising returns.
- 6.4.4 **Market Monitoring:** Regularly assessing economic conditions and interest rate forecasts to make informed investment decisions.
- 6.5 By adopting a proactive approach, the Council aims to optimise returns on its cash holdings while maintaining financial stability.
- 6.6 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via MUFG's benchmarking service.
- 6.7 Whilst the annual income stream from a property fund exhibits stability (circa 4% per annum net of management fees) capital values rise and fall with the cyclical nature of economic activity. During a downturn in the economy, capital values may fall significantly. The duration of a property fund investment may need to be extended to avoid crystallising a loss and as a consequence the investment's duration cannot be determined with certainty.
- 6.8 Buying and selling property involves significant costs making property unsuitable for short term investment. Buying and selling costs are reflected in the entry fees (circa 6%) and exit fees (circa 2%) a property fund will charge unit holders. These fees are expected to be recouped over time through capital appreciation.
- 6.9 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored, and due regard had to the potential for a fund to delay payment of redemption requests by up to 12 months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.
- 6.10 Diversified income funds aim to limit risk by spreading investment across a broad range of asset classes (equities, bonds, property and cash). Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events. Short term bond values are linked to interest rate expectations and long-term bond values are linked to inflation expectations. Funds aim to minimise the risk of issuer default by investing in a broad spread of issuers and across different sectors and geographic regions. Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events.

7 Risk Assessment

- 7.1 The application of best practice, including the regular reporting and scrutiny of treasury management activity, as identified by the CIPFA Code is considered to be an effective way of mitigating the risks associated with treasury management.

7.2 MUFG are employed to provide advice on the content of the Treasury Management and Annual Investment Strategy and this, coupled with a regular audit of treasury activities (balance sheet reviews, benchmarking and general support) ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.

8 Legal Implications

8.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. In addition, MUFG are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

8.2 This report fulfils the requirements of the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice 2021 and the 2018 Statutory Guidance on Local Government Investments.

9 Cross Cutting Issues

9.1 Climate Change and Biodiversity

9.1.1 While the Treasury Management Code establishes security, liquidity and yield as the core investment principles, it also recognises the growing importance of environmental, social and governance (ESG) considerations for investors. Accordingly, ESG considerations have now been formally incorporated into the Treasury Management Strategy Statement (TMSS).

9.1.2 The Council will continue to keep this area under review and bring forward any proposed changes to future committees for consideration.

9.2 Equalities and Diversity

9.2.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Background Papers	Benchmarking data.
Annexes:	(1) TMBC Investment Summary February 2026 (2) TMBC Lending List February 2026 (3) TMBC Benchmarking December 2025