



Meeting: **Investment Subcommittee**

Date/Time: **Wednesday, 14 October 2015 at 10.00 am**

Location: **Gartree Committee Room, County Hall, Glenfield**

Contact: **Mr. M. Hand (Tel. 0116 305 6038)**

Email: **matthew.hand@leics.gov.uk**

Membership

Mr. G. A. Hart CC (Chairman)

Cllr. P. Kitterick Mr. P. C. Osborne CC
Mr. K. W. P. Lynch CC Cllr. M. Graham
Mr. J. Shuter Mr. R. Bone

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 24 June 2015		(Pages 3 - 4)
2. Question Time.		
3. Questions asked by members under Standing Order 7(3) and 7(5).		
4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5. Declarations of interest in respect of items on the agenda.		
6. Emerging Market Backdrop.	Kames Capital	(Pages 5 – 13)



7. Schedule of future meeting dates.

Members are asked to note the meeting dates for 2016 listed below following consultation with the Chairman:

Wednesday 23 March
Wednesday 27 April
Wednesday 22 June
Wednesday 20 July
Wednesday 10 August
Wednesday 12 October
Wednesday 14 December

8. Date of Next Meeting - 9 December 2015.

9. Any other items which the Chairman has decided to take as urgent.

Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the following items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information):

10. Emerging Markets Fund - Presentation by Fund Manager
Delaware Investments.



Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 24 June 2015.

PRESENT:

Leicestershire County Council

Mr. G. A. Hart CC (Chairman)
Mr. K. W. P. Lynch CC

Mr. P. C. Osborne CC

Leicester City Council/District Council
Representative

Cllr. P. Kitterick
Cllr. M. Graham

Staff Representative

Mr. N. Booth

Independent Advisers and Managers

Mr. A. Green

80. Election of Chairman.

That Mr. G.A Hart CC be appointed Chairman of the Investment Subcommittee for the period ending with the date of the Annual Council meeting in May 2016

81. Minutes of the previous meeting.

The minutes of the meeting held on 29 April were taken as read, confirmed and signed.

82. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

83. Questions asked by members.

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

84. Urgent items.

There were no urgent items for consideration.

85. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

86. Recommended Investment in Markham Rae Trade Capital Partners I.

The Subcommittee considered a report of the Director of Corporate Resources which provided members with background information relating to a recommended investment in Markham Rae Trade Capital Partners ILP (MRTCP). A copy of the report is filed with these minutes marked '7'.

RESOLVED

That the report be noted.

87. Date of Next Meeting - 22 July 2015.

RESOLVED:

That it be noted that:

a) the next meeting of the Subcommittee is scheduled to be held on 22 July, 2015;

b) the meetings scheduled for 22 July and 19 August 2015 are likely to be cancelled due to a lack of business to be transacted, Members would be contacted by officers to confirm matters nearer the time.

88. Supplementary Presentation on Recommended Investment in Markham Rae Trade Capital Partners.

The Subcommittee received presentations by representatives from Markham Raw Trade Capital Partners which was followed by questions from members. A copy of the presentation is filed with these minutes marked '10'. The presentation was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

a) That the presentation delivered by the Investment Manager be noted

b) That a \$40m commitment to invest in Markham Rae Trade Capital Partners be approved.

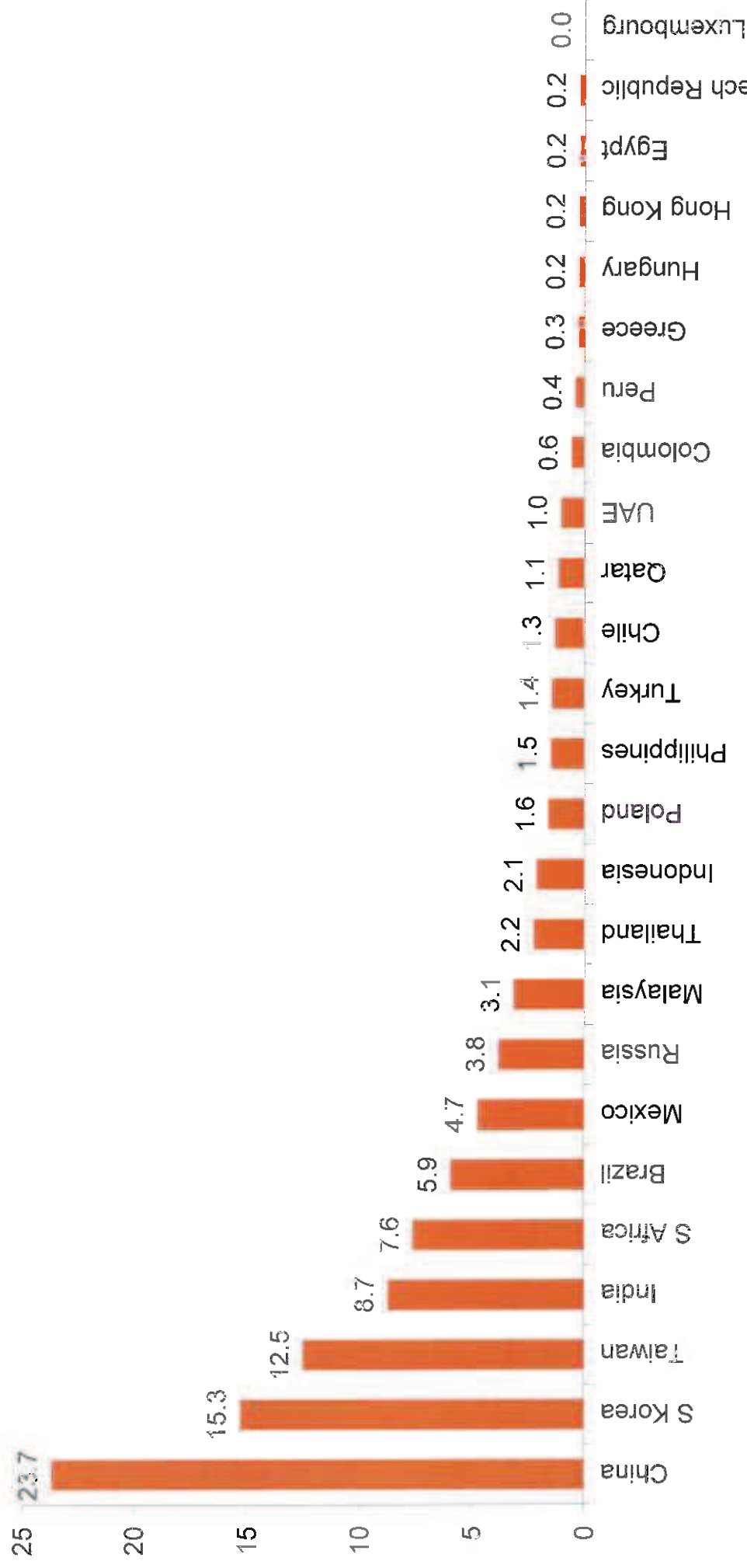
Emerging market backdrop

October 2015

Scott M Jamieson – Head of Multi-Asset Investing

Emerging equity markets – country composition

KAMES
CAPITAL

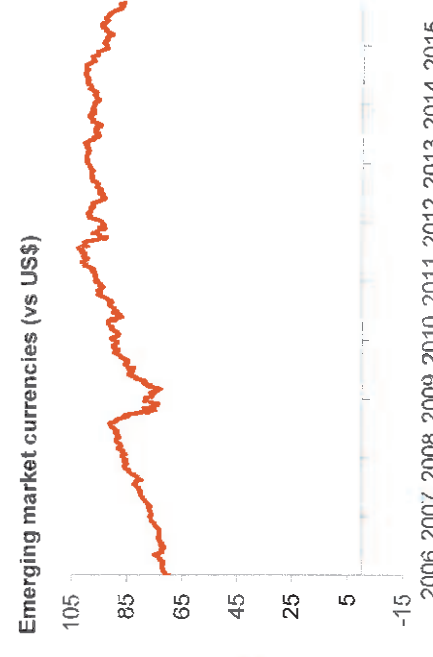
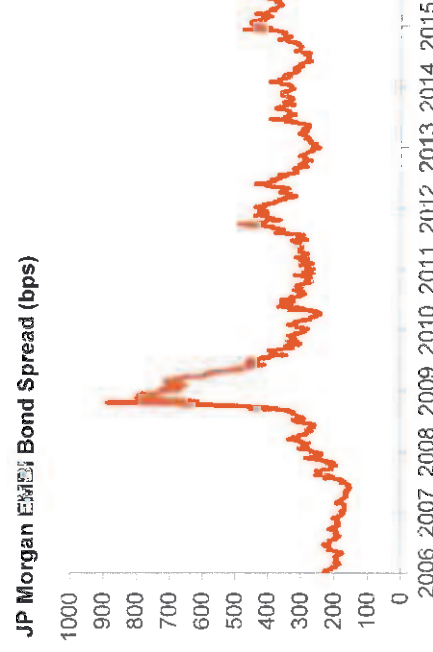
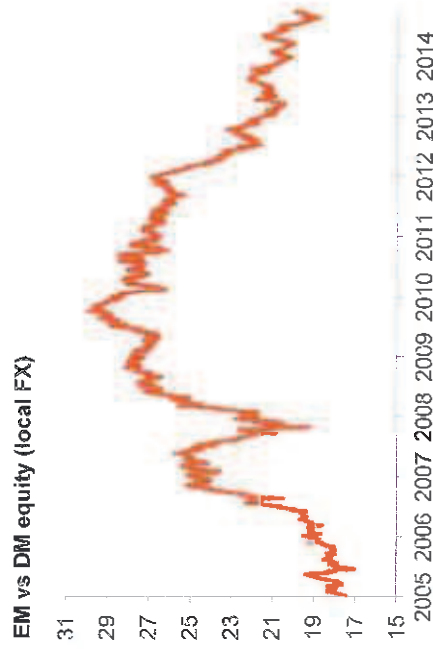


► Market value of EM equities is \$6.4trillion; 16% of MSCI AC world index¹

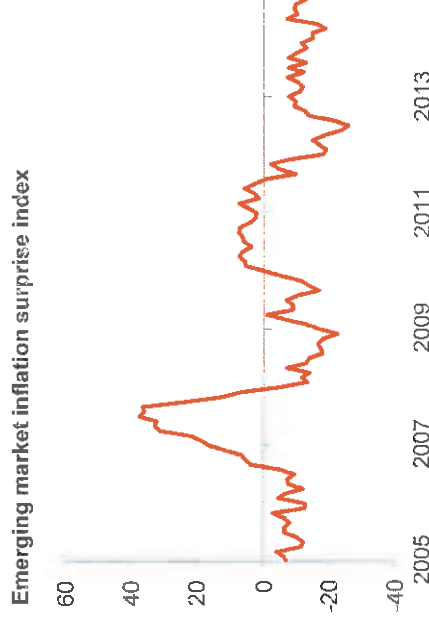
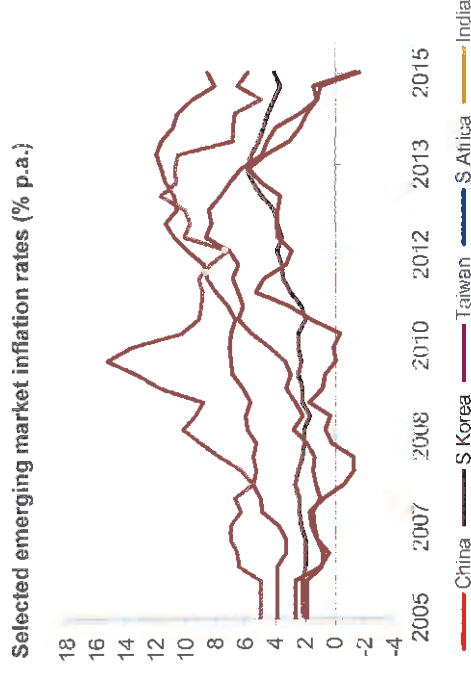
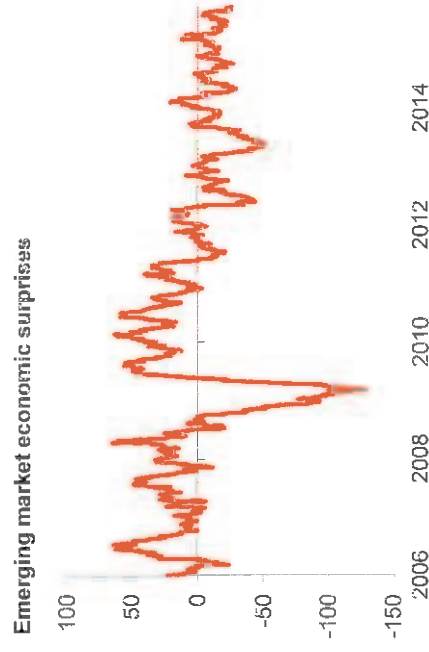
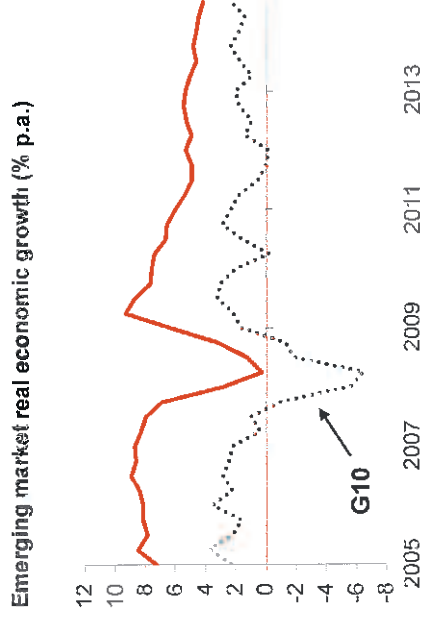
Source: iShares MSCI EM ETF. ¹based on MSCI data, source Bloomberg as at September 2015

- ▶ **Emerging equity markets have underperformed developed markets badly**
 - More than unwinding the relative performance over past ten years
- ▶ **Emerging debt markets have seen yields spreads (over hard currency bonds) rise**
 - To levels only breached in the financial crisis
- ▶ **Emerging market currencies were last to slip**
 - Down 15% vs US\$ over past year

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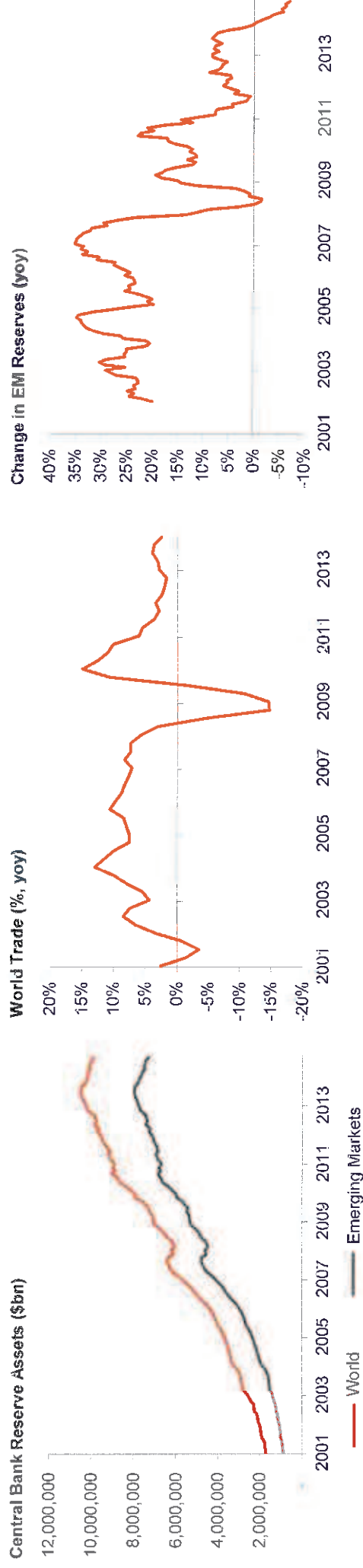


- **Emerging equity market weakness coincides with downshift in economic growth**
 - And a narrowing of the growth premium to developed markets
- **Economic data continues to undershoot expectations**
- **Emerging market inflation has been declining**
 - And faster than expectations



- ▶ **Emerging nations have tended to accumulate their trade profits in central bank reserves**
 - If used instead to fuel consumption then world's imbalances would be much less
- ▶ **World trade growth has fallen steadily since the financial crisis**
 - Putting pressure on trading nations
- ▶ **EM nations are starting to drawdown on their 'nest eggs'**
 - Adding to pressure on investment markets

9



Source: Bloomberg as at August 2015.

► **China has been hit by declining world trade**

- And an appreciating currency

► **Chinese economic model is being transformed from investment focused to consumption led**

- Putting pressure on its raw material 'suppliers'

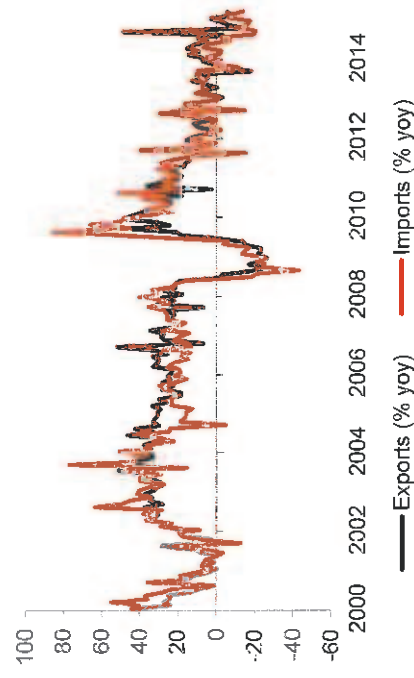
► **Chinese policy being discredited**

- The move to generate a wealth effect via the equity market has failed

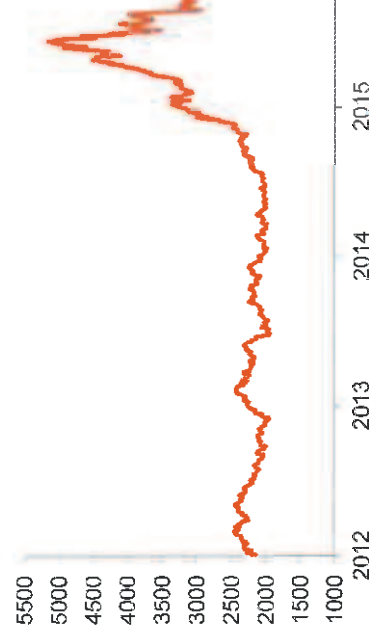
► **Cutting interest rates too far risks capital flight**

- So monetary conditions – everywhere – stay far too tight

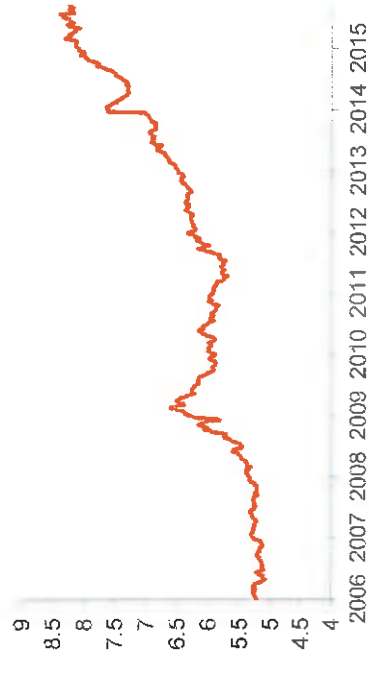
Chinese trade flows



Chinese equity market



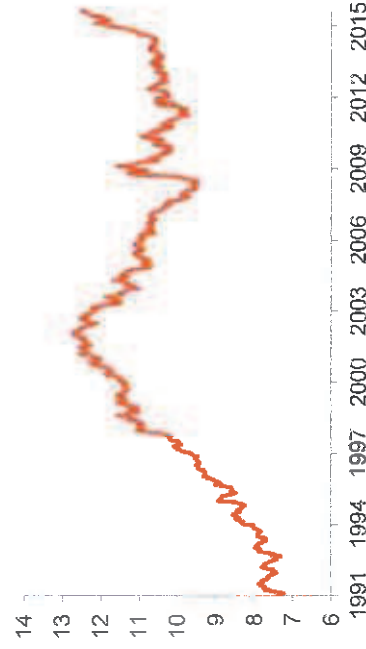
China real trade weight currency index



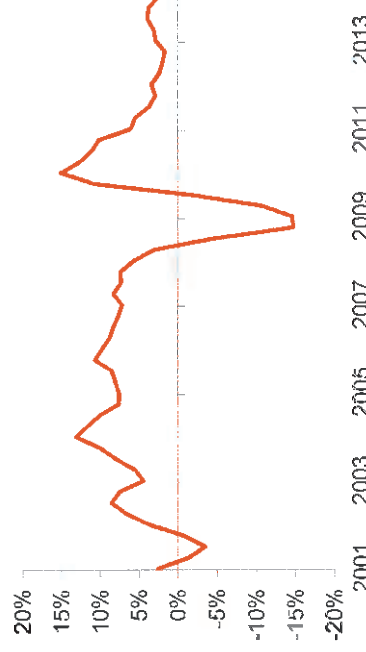
Source: Bloomberg and Datastream as at September 2015.

- ▶ **In summary emerging markets are having to face:**
- ▶ **A resurgent US\$**
 - Keeping capital in the US and straining US\$ borrowing lines (significant for EM corporates)
- ▶ **A re-orientation of Chinese economy**
- ▶ **Weak world trade**
- ▶ **Slumping commodity markets**

US trade weight currency index



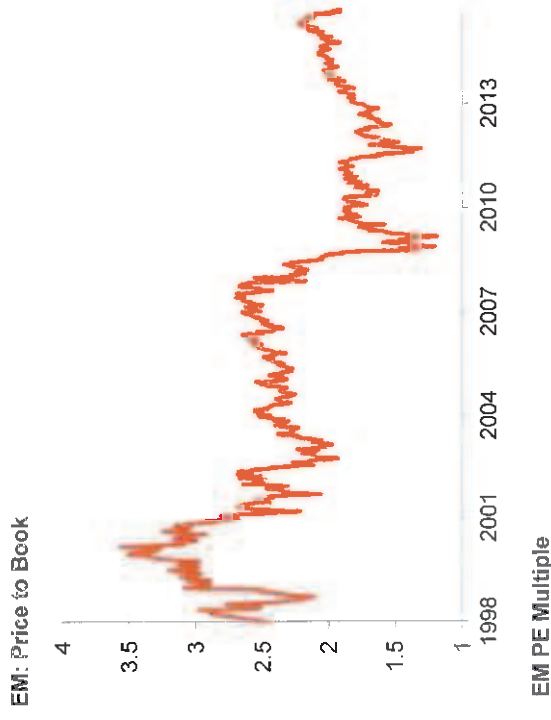
World Trade (% yoy)



Commodity markets (Bloomberg index)



EM – things can only get better?



Perhaps, equities do look reasonably cheap

Improvement could come from:

- ▶ **A stabilisation of the US\$**
 - Limited US interest rate hikes would help
- ▶ **Constructive use of the reserve balance**
 - To fuel much needed infrastructure investment across EM
- ▶ **A healthier world economy**
 - The goal of central bank policy everywhere

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