

WHITCHURCH BRIDGE COMPANY TOLL APPLICATION 31st OCTOBER 2008

Investment Management and Management of the Reserve Fund

The Company is legally bound to build up a Reserve Fund for the maintenance and eventual replacement of the Whitchurch Bridge. The Fund is not distributable and forms part of the assets of the Company.

1) Objective of the Fund

- a) The objective of the Reserve Fund is to ensure that COPWB has sufficient funds at all times to operate and maintain the Bridge safely and reliably and that the Company has maximum funding of its own to afford to reconstruct the Bridge in 2013 - 2014.
- b) The likely cost of reconstruction in 2008 - 2009 is currently £3.2m (estimated at £4.1m by 2013 - 2014) and the aim is for the Reserve Fund to reach a target of some 70% of the funding costs by 2013 - 2014 – ie £2.9m by 2013. This can only be achieved by an increase in tolls to the level requested – 40p - in the Toll Application.
- c) COPWB has recognised for some years that there is likely to be a shortfall between the amount of the Company's Reserve Fund and the cost of reconstruction. This has been exacerbated in the last 5 years by the substantial global price increases in raw materials – particularly steel, which has meant that replacement and reconstruction costs of the bridge have increased at a rate of some 14% compound pa. No investment strategy can match this without taking extravagant risks. As COPWB has not taken such risks the gap in funding has widened over recent years.
- d) It is intended that the shortfall will be funded by a prudent level of borrowing.

2) Target Investment Returns

- a) During the last 5 years COPWB has increased its target level of return in terms of investment income from the Reserve Fund portfolio from 3.2% to 4% pa, and its target level of average net capital gains realised from 1% to 2% pa. This gives an overall target return of 6% pa, which has been exceeded slightly averaged over the last 22 years from 1987 – 2008 (see Attachment 1).
- b) This is a reasonable and positive assumption of return bearing in mind the current return on a 10 year Treasury Gilt is 3.5% pa. (9 March 2009)
- c) Net capital gains cannot be guaranteed annually owing to the volatility of financial markets.

3) Principles of Operation

- a) The Reserve Fund consists of a conservative, low risk, investment portfolio which is professionally run on a non-discretionary and therefore advisory basis. This means that the Directors of the Company have a considerable influence in the strategic and tactical direction of the portfolio with important input from their professional adviser – Brewin Dolphin (The Adviser).
- b) The Fund has two sources of income -surplus operational cash flow from tolls invested into the Fund by regular transfer from COPWB to the Adviser. -investment income created from the returns from the investments which is reinvested into the Fund by the Adviser. This is illustrated in Attachment 3 which shows target transfers from operating cash and investment income to the Reserve Fund.
- c) Quarterly presentations are made to the Board of Directors of COPWB by the Adviser in order to ensure that The Board is fully aware of the current position and direction of the portfolio at all times. In addition, two of the Executive Directors meet regularly with the Adviser, as the Company investment sub-committee, to discuss and action investment strategy and tactical investment options. This continuous, regular review ensures that the Company knows to the best of its ability what and where the risks are in the portfolio.
- d) Investment principles include:-
 - i) Appropriate diversification of investments across the range of suitable sectors
 - ii) Achieving target income across the portfolio, and, in the case of equities, investing with a prospect of capital gain
 - iii) Choosing investments with strong management/investment teams, clear and credible strategies, balance sheet strength (including low debt/gearing)
 - iv) Attractive price/earnings ratios and long term growth opportunities in the sector
 - v) Yield which fits the COPWB target and which appears sustainable for the medium term
 - vi) Investments which are justifiable to our shareholders
 - vii) Capital gain is locked in by sale of investments when appropriate and reinvested into the portfolio (see Attachment 1).

4) Development and Management of Investment Strategy

Company of Proprietors of Whitchurch Bridge

- a) The target value of the Reserve Fund is £2.9m by 2013 - 2014. A major factor in achieving this is a consistent, managed and conservative approach to investment strategy. This involves very full commitment by the investment subcommittee and continuous interactive communication with the Adviser.
- b) The Company's professional adviser has changed in name several times over the last 15 years (Albert E Sharp, Capel Cure Myers, Capel Cure Sharp, Gerrard and Son, Gerrards (Barclays Bank plc), and now Brewin Dolphin. In all these changes we have retained the same professional broking adviser for the last 10 years – Robert Burgeman, Divisional Director, Brewin Dolphin Ltd
- c) Over the last 15 years the target funding for the Reserve Fund has been refined from providing for replacement of the Bridge to reconstruction of the Bridge. The latter is less expensive and what COPWB is seeking to do in 2013 - 2014.
- d) Over the last 10 years – with the approach of reconstruction – the Reserve Fund has been managed strategically akin to a pension fund with increasing weighting towards fixed income (bonds) rather than pure reliance on equities. This is intended to give greater certainty as the time to convert to cash resources approaches and hence reduce the risk profile of the Fund.
- e) As a result our risk management of the portfolio is reflected in the asset allocation of the percentage of investments in equities, bonds and cash – from 60/35/5% 5 years ago, to 50/45/5% 3 years ago to the current 40/55/5 % currently.
- f) There is no overexposure to any one sector.
- g) Growth statistics for the Fund portfolio have been as follows:
 - i) 10 years 1988 – 1997 → 45% equivalent to 2.9% compound pa
 - ii) 11 years 1997 – 2007 → 48% equivalent to 3.1% compound pa
 - iii) 5 years 2003 – 2008 → 37%* equivalent to 5.1% compound pa
 - iv) 5 years 2004 – present → 21% equivalent to 3.4% compound pa
 - v) Attachment 1 shows the growth of the Fund and relevant yields since 1987
 - vi) Attachment 2 shows how the Fund has tracked and exceeded the major comparator indices in financial markets for the last 11 years since 1998

- h) Since early 2008 performance of the Fund portfolio has fallen as the global fall in financial markets has taken hold. However, the decline in Fund value has not been as great as those of the above comparators (Attachment 2) owing to the conservative way in which the Fund is managed

5) Summary

By any measure the Reserve Fund has been managed and continues to be managed by the Company in a prudent and responsible manner consistent with the context of the funding which is its purpose – that is, to fund essential maintenance for the safe and reliable operation of the Bridge and meet the target funding of £2.9m for the forthcoming reconstruction of the Whitchurch Bridge in 2013 - 2014. In order for this to be achieved an increase in the tolls to 40p as requested in the Toll Application is required.

Company of Proprietors of Whitchurch Bridge

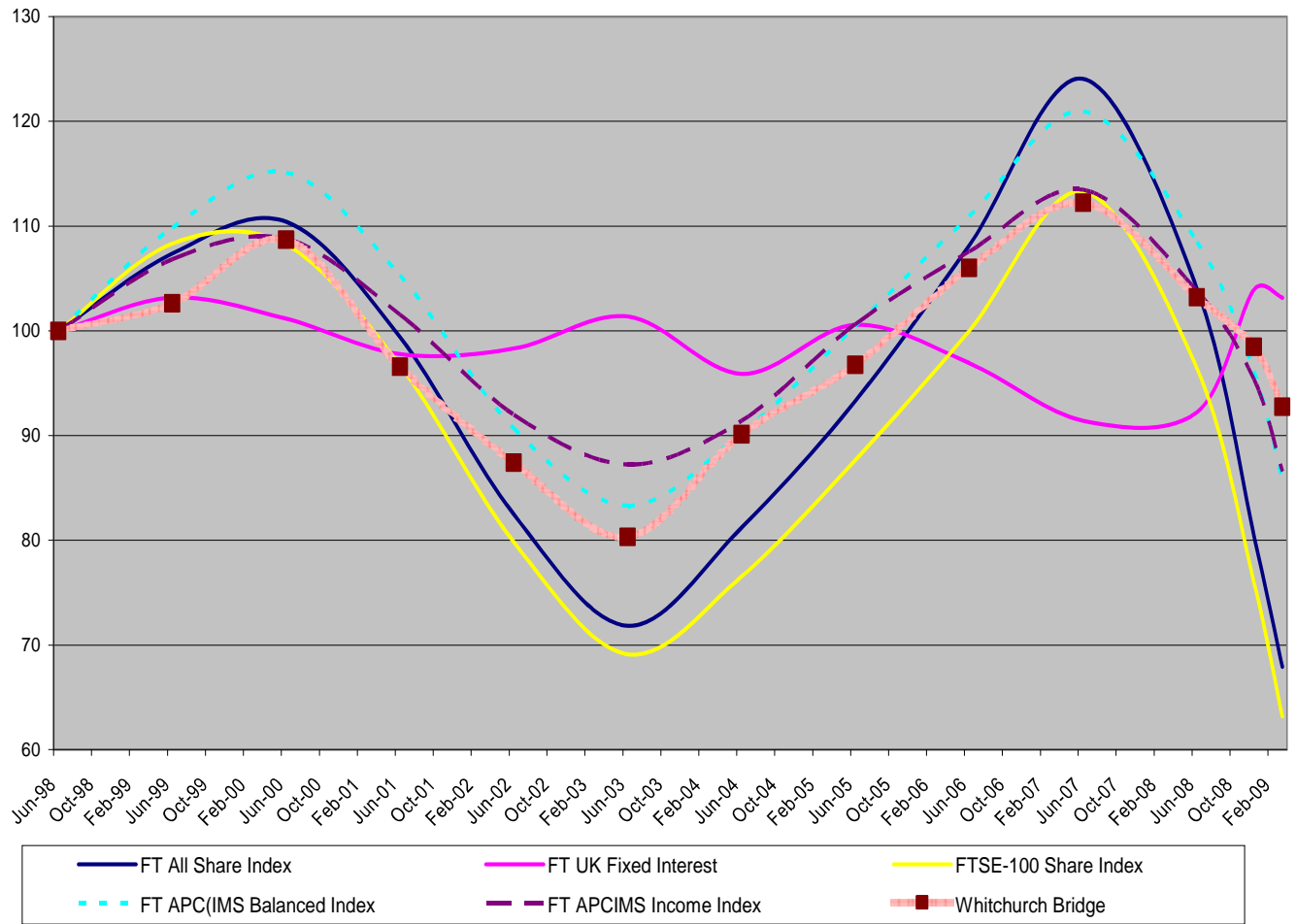
Attachment 1 – COPWB Reserve Fund

Attachment 1	COPWB Reserve Fund											
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Valuation - market	441	414	489	554	585	604	634	668	698	724	747	950
Valuation - book cost	343	363	402	450	495	481	358	390	428	470	537	638
Investment income	22	18	24	25	31	30	20	20	21	26	26	32
Income yield	5.00%	4.30%	4.90%	4.50%	5.30%	5.10%	4.20%	4.00%	3.70%	4.20%	3.40%	3.40%
Net capital gain(loss)	31	1	12	8	17	-2	43	17	7	16	10	47
Overall yield	12%	4.50%	7.40%	6.00%	8.20%	4.70%	13.10%	7.50%	5.00%	6.80%	4.80%	8.30%
Valuation - market	1011	1112	1020	953	907	1058	1182	1350	1497	1439	1343	
Valuation - book cost	656	805	805	876	871	960	1034	1188	1298	1430	1571	
Investment income	34	33	27	32	34	31	47	48	52	67		
Income yield	3.40%	3.40%	2.60%	3.40%	3.70%	2.90%	4.10%	3.70%	3.60%	4.60%		Av = 4.0%
Net capital gain(loss)	12	106	-12	16	-12	-11	39	65	61	18		
Overall yield	4.50%	14.40%	1.50%	5.00%	2.40%	1.90%	7.50%	8.60%	7.80%	5.80%		Av = 6.7%

Average inflation over this period was 2.5% pa

COPWB Comparators Chart

Attachment 2



This chart illustrates that the COPWB Reserve Fund (RF) portfolio has performed well and in most cases has exceeded against all other comparable market indicators. Importantly, it has exceeded the FT All Share Index, the FTSE 100 Share Index and both the FT APCIMS Balanced Index and Income Index.

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