

## Notice of Meeting and Agenda Investment Review Board

| Date                    | Time  | Venue   |
|-------------------------|-------|---|
| Wednesday, 13 June 2018 | 11:00 | Corporate Meeting Room 3, Council Headquarters, Renfrewshire House, Cotton Street, Paisley, PA1 1AN |

KENNETH GRAHAM  
Head of Corporate Governance

### Membership

Councillor Alison Jean Dowling: Councillor John McIntyre: Councillor Iain Nicolson:

Councillor John Shaw (Convener): Councillor Jim Paterson (Depute Convener):

### Further Information

This is a meeting which is open to members of the public.

A copy of the agenda and reports for this meeting will be available for inspection prior to the meeting at the Customer Service Centre, Renfrewshire House, Cotton Street, Paisley and online at <http://renfrewshire.cmis.uk.com/renfrewshire/CouncilandBoards.aspx>

For further information, please either email [democratic-services@renfrewshire.gov.uk](mailto:democratic-services@renfrewshire.gov.uk) or telephone 0141 618 7112.

### Members of the Press and Public

Members of the press and public wishing to attend the meeting should report to the customer service centre where they will be met and directed to the meeting.

# **Items of business**

## **Apologies**

Apologies from members.

## **Declarations of Interest**

Members are asked to declare an interest in any item(s) on the agenda and to provide a brief explanation of the nature of the interest.

|          |                                   |              |
|----------|-----------------------------------|--------------|
| <b>1</b> | <b>Minute of Previous Meeting</b> | <b>3 - 6</b> |
|----------|-----------------------------------|--------------|

Minute of meeting held on 22 November 2017.

|          |                            |  |
|----------|----------------------------|--|
| <b>2</b> | <b>Information Session</b> |  |
|----------|----------------------------|--|

Consider briefing by David Millar, Senior Investment Consultant, Hymans Robertson LLP regarding the Renfrewshire investment portfolios and the current economic situation.

|          |   |               |
|----------|---|---------------|
| <b>3</b> | <b>Paisley and Renfrew Common Good Funds - Review of Investment and Income Performance.</b> | <b>7 - 18</b> |
|----------|---|---------------|

Report by the Director of Finance and Resources relative to the performance of the Paisley and Renfrew Common Good Funds; including a briefing from Hymans Robertson LLP regarding the key issues to be presented by David Martin. Subsequent to this Gair Brisbane and/or Mike Connor, Standard Life Wealth Limited, will deliver a presentation relative to the performance of the Paisley and Renfrew Common Good Fund.s

|          |                             |
|----------|-----------------------------|
| <b>4</b> | <b>Date of Next Meeting</b> |
|----------|-----------------------------|

Members are asked to note that the date of the next meeting of the Investment Review Board is scheduled to be held at 11am on 21 November 2018.

## Minute of Meeting Investment Review Board

| Date                        | Time  | Venue   |
|-----------------------------|-------|---|
| Wednesday, 22 November 2017 | 14:00 | Corporate Meeting Room 2, Council Headquarters, Renfrewshire House, Cotton Street, Paisley, PA1 1AN |

**Present:** Councillor John McIntyre, Councillor Jim Paterson, Councillor John Shaw

### Chair

Councillor Shaw, Convener, presided.

### In Attendance

A MacArthur, Head of Finance, L Dickie, Finance Manager and C MacDonald, Senior Committee Services Officer (all Finance & Resources).

### Also in Attendance

D Millar, Senior Investment Analyst, Hymans Robertson LLP; and M Connor and G Brisbane, Portfolio Managers (both Standard Life Wealth Limited).

### Apologies

Councillors Alison Jean Dowling and Iain Nicolson.

### Declaration of Interest

There were no declarations of interest intimated prior to the commencement of the meeting.

## **1 Minute of Previous Meeting**

There was submitted the Minute of the meeting of the Investment Review Board held on 7 June 2017.

**DECIDED:** That the Minute be approved.

## **2 Review of Statement of Investment Principles**

There was submitted a report by the Director of Finance & Resources relative to the Statement of Investment Principles in relation to the Paisley and Renfrew Common Good Funds.

The report indicated that the Council had arranged for the investments of the Paisley and Renfrew Common Good Funds to be managed by Standard Life Wealth Limited, and had agreed with the manager a number of principles which governed decisions regarding these investments. These principles covered a range of issues such as which benchmark should be employed against which to assess the manager's performance, and restrictions which the manager required to observe when choosing sectors or classes of asset in which to invest. The Statement of Investment Principles had last been reviewed during November 2016 and was due for review. The report advised that there was one change proposed to the existing Statement which reflected the predominant objective for the investment manager to generate regular income for distribution to Local Area Committees and to fund other charitable activities, and to achieve capital growth thereafter. A copy of the Statement of Investment Principles was appended to the report.

**DECIDED:** That the Statement of Investment Principles, as amended, be approved.

## **3 Information Session**

D Miller, Hymans Robertson LLP, gave a briefing on market and economic news since 30 June 2016. He provided some background to the market information; outlined the equity markets in 2017; detailed the impact of currencies on the market; gave an update on bonds for 2017; and made reference to the property market and how it was performing.

G Brisbane, Standard Life Wealth, gave a briefing on asset classes. He gave a brief description of what asset classes were; what asset classes Standard Life Wealth invested in; and why portfolios should be diversified.

**DECIDED:** That the briefings be noted.

## **4 Paisley and Renfrew Common Good Funds - Review of Investment and Income Performance**

There was submitted a report by the Director of Finance & Resources relative to the performance of the Paisley and Renfrew Common Good Funds during the six-month period ending 30 September 2017. A performance review by Hymans Robertson LLP was attached as an appendix to the report.

M Connor and G Brisbane gave a presentation which advised of the performance of the world markets since June 2016; highlighted the effect of notable events on global

equities and gilts; detailed the investment guidelines; highlighted the performance of the Common Good Funds as at 30 September 2017; detailed the Common Good portfolios; indicated the stock contribution and the top 10 equity holdings for the Common Good Funds; and drew special attention to the effect of the “smart generation” and health and wellbeing.

**DECIDED:** That the report and presentation be noted.

## **5 Date of Next Meeting**

It was noted that the next meeting of the Investment Review Board would be held in Renfrewshire House on Wednesday 13 June 2018 at 11.00am.

**DECIDED:** That the information be noted.





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**To:** Investment Review Board

**On:** 13 June 2018

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**Report by:** Director of Finance and Resources

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**Heading:** Paisley and Renfrew Common Good Funds  
six-month report to 31 March 2018

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**1. Summary**

1.1 Hymans Robertson LLP have been engaged by the Council to provide investment advice pertaining to the Paisley and Renfrew Common Good Funds, and to assess the performance of the Funds' investment managers, Standard Life Wealth Limited.

1.2 A report by Hymans Robertson LLP is attached for Members' consideration. The report provides an assessment of the performance of the Funds' investments and income levels during the six-month period ending 31 March 2018. Hymans Robertson LLP will be represented at the meeting by David Millar (Senior Investment Consultant), who will present his report to Members. The investment managers will not be present during this part of the meeting.

1.3 Gair Brisbane and/or Mike Connor (Standard Life Wealth Limited) will then join the meeting. Mr Brisbane will give a short presentation during which there will be an opportunity for Members to question him directly in regard to his presentation and Fund performance.

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## 2. **Recommendations**

2.1 To consider the attached report from Hymans Robertson LLP and the presentation by Standard Life Wealth Limited.

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### **Implications of the Report**

1. **Financial** – funds generated by the Investment Manager are made available for distribution through grants and other awards agreed by Local Area Committees and the Finance, Resources and Customer Services Policy Board. All funds are managed in line with the requirements of local government and charities regulations, and in line with the Statement of Investment Principles.
  
2. **HR & Organisational Development** - *none*
3. **Community Planning** – *none*
4. **Legal** - *none*
5. **Property/Assets** - *none*
6. **Information Technology** - *none*
  
7. **Equality & Human Rights** - the recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
  
8. **Health & Safety** - *none*
9. **Procurement** – *none*
10. **Risk** – *none*
11. **Privacy Impact** - *none*
12. **COSLA position** - *none*

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**Author:** *Alastair MacArthur, Ext 7363*

# Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the 6 Months to 31 March 2018



Prepared by:

David Millar- Associate Consultant  
Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP  
June 2018

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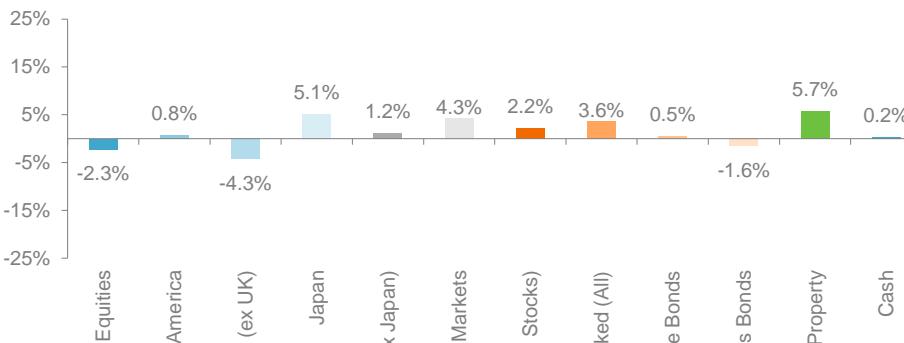
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Hymans Robertson LLP, has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss arising from their use.



## Historic Returns for World Markets to 31 March 2018

## 6 Months (%)



## Market Comments.

Q4 economic data confirmed that global growth remained buoyant through to the year-end yet the UK continues to lag behind its peers. Japan continued its longest streak of growth since 1989, although initial estimates suggest growth had eased very slightly in Q4, as it had in the US and Eurozone.

Survey evidence suggested that growth remained robust into the new year, although the outlook was clouded by early skirmishes in what might develop into a trade war between the US and China.

Underlying inflation rates remained relatively stable in the major economies, although investors were briefly unsettled by higher-than-expected US wage growth in January. UK CPI inflation fell from 3% to 2.7% in February. Even so, there is speculation that interest rates may rise. The US Federal Reserve, under a new Chairman, continued to tighten policy gradually raising rates by another 0.25%.

Global economic momentum and inflation concerns helped to push government bond yields higher at the start of the year. Inflation concerns receded later, particularly outside the US. Long-dated gilt yields fell over the quarter, although 10-year yields rose.

Yen was the strongest of the major currencies, although sterling rose 2% in trade-weighted terms.

Oil prices pushed higher – Brent crude reached a three-year high of \$70 a barrel. The impact of rising US production was tempered by declines in Venezuela, prospects of renewed US sanctions on Iran and strong demand. In contrast, industrial metals prices fell sharply – relevant indices were down 7%.

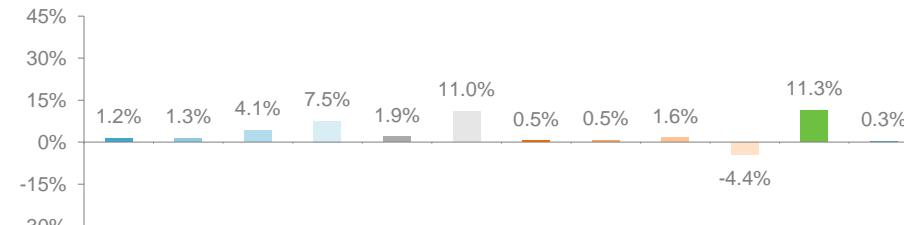
Buoyant global growth supported credit markets at the start of the year. Yield spreads narrowed further in January, but ended the quarter higher as concerns grew about tighter monetary policy and rising trade tension.

Similar factors drove equity returns. Global indices rose strongly in January, but fell over the quarter as a whole. Sterling's strength further reduced returns to UK investors. The best regional performance came from Emerging Markets, extending the relative momentum of 2016 and 2017. Sterling's strength contributed to the underperformance of the UK market, because of the significance of foreign earnings.

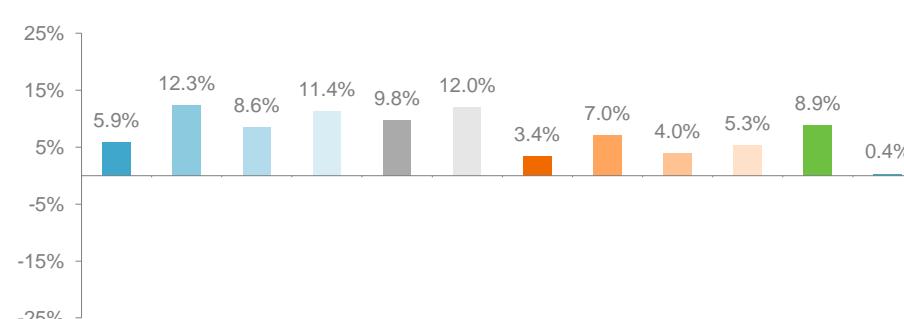
Technology remained investors' favourite sector, although the current travails of Facebook were putting this position under threat as the quarter closed. Telecommunications was the worst performer – rising US rates may be undermining what is a preferred area for income investors.

The turn of the year brought little change for the UK commercial property market. Capital values and rents nudged higher. Again, this was driven primarily by strong growth in Industrials, although there are some signs that the sector's rental growth may be flagging.

## 12 Months (%)



## 3 Years (% p.a.)



### Paisley Common Good Fund: Portfolio Summary

#### Valuation Summary

|                        | Values (£m)  |              | Actual Proportion % | Target Proportion % | Difference % | (Standard Life) Estimated Annual Income | Target   |
|------------------------|--------------|--------------|---------------------|---------------------|--------------|---|----------|
|                        | 30/09/2017   | 31/03/2018   |                     |                     |              |   |          |
| UK Equities            | 1.935        | 1.754        | 44.9                | 60.0                | -15.1        |   |          |
| International Equities | 1.415        | 1.444        | 36.9                | 20.0                | 16.9         |   |          |
| UK Bonds               | 0.495        | 0.507        | 13.0                | 18.0                | -5.0         |   |          |
| International Bonds    | 0.119        | 0.122        | 3.1                 | 0.0                 | 3.1          |   |          |
| Property               | 0.000        | 0.000        | 0.0                 | 0.0                 | 0.0          |   |          |
| Cash/Other             | 0.058        | 0.084        | 2.2                 | 2.0                 | 0.2          |   |          |
| <b>Total</b>           | <b>4.022</b> | <b>3.911</b> | <b>100.0%</b>       | <b>100.0%</b>       |              |   |          |
|                        |              |              |                     |                     |              | £149,564                                | £102,700 |
|                        |              |              |                     |                     |              | £147,906                                |          |
|                        |              |              |                     |                     |              | £147,737                                |          |

Estimated income includes UK equity dividends on a net, cash received, basis.

#### Performance Summary



#### Relative Quarterly and Relative Cumulative Performance



### Renfrew Common Good Fund: Portfolio Summary

#### Valuation Summary

|              | Values (£m)   |               | Actual Proportion % | Target Proportion % | Difference % | (Standard Life) Estimated Annual Income |                 |                     | Target          |
|--------------|---------------|---------------|---------------------|---------------------|--------------|---|-----------------|---------------------|-----------------|
|              | 30/09/2017    | 31/03/2018    |                     |                     |              | 30/09/2017                              | 29/12/2017      | 31/03/2018          |                 |
| UK Equities  | 6.535         | 5.921         | 44.8                | 60.0                | -15.2        |   |                 |                     |                 |
|              | 4.805         | 4.912         | 37.2                | 20.0                | 17.2         |   |                 |                     |                 |
|              | 1.683         | 1.724         | 13.0                | 18.0                | -5.0         |   |                 |                     |                 |
|              | 0.397         | 0.386         | 2.9                 | 0.0                 | 2.9          |   |                 |                     |                 |
|              | 0.000         | 0.000         | 0.0                 | 0.0                 | 0.0          |   |                 |                     |                 |
|              | 0.169         | 0.277         | 2.1                 | 2.0                 | 0.1          |   |                 |                     |                 |
| <b>Total</b> | <b>13.589</b> | <b>13.219</b> | <b>100.0%</b>       | <b>100.0%</b>       |              |   |                 |                     |                 |
|              |               |               |                     |                     |              | <b>£506,829</b>                         | <b>£501,160</b> | <b>£ 499,993.00</b> | <b>£346,000</b> |

Estimated income includes UK equity dividends on a net, cash received, basis.

#### Performance Summary



#### Relative Quarterly and Relative Cumulative Performance



### Paisley Common Good Fund: Allocation and Performance

#### Commentary on Paisley Common Good Fund

The Fund, in aggregate, returned -1.5% between end September 2017 (the effective date of the immediately preceding report) and end March 2018; over the same period, the benchmark achieved a return of -0.8%. Fund returns had remained positive in absolute terms until the end of 2017 but the first quarter of 2018 saw the return of volatility to the markets following a long period of unusually low volatility. This resulted in negative returns for most asset classes in Q1.

In terms of relative performance, the Fund modestly underperformed its benchmark over 6 months. This was primarily driven by equity performance in Q4 with the Fund's UK and European holdings underperforming. Positioning in favour of more cautious sectors such as utilities / consumer staples was detrimental.

In contrast, the Fund outperformed the falling market in Q1. With the relative outperformance driven by strong equity stock selection, particularly in consumer goods, healthcare and oil and gas sectors. The level of outperformance over Q1 was partially offset by the negative effect of being underweight gilts (which performed better than many asset classes, particularly equities and corporate bonds).

Over 12 months, fund returns are still positive in absolute terms (+2.1%) and ahead of benchmark by 0.6%. Since the inception of the mandate, on 1 July 2006, the Fund return of +6.8% p.a. broadly matched the benchmark return of +6.8% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end March 2018, the allocation to equities (81.8%) was modestly above the benchmark allocation (80%). The portfolio continues to be underweight in UK equities and overweight in overseas equities. This reflects the investment manager's global investment perspective.

The exposure to bonds was 16.1% at end March 2018 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2018 was 2.2% (broadly in-line with the benchmark allocation).

Questions for the investment manager;

Is the return of volatility a sign of a return to normality following a particularly benign period and do you expect it to continue; what effects will this have on your portfolio construction?

In your view, what impact will a US - China trade war have on equity and bond market valuations?

The allocation to infrastructure funds has been trimmed recently given the more negative sentiment towards infrastructure as a sector – what areas of the market will you look to for compensating yield?

Within equities, the Fund's bias in favour of Overseas equities has increased modestly, is there any particular driver for this move?

Telecoms stocks have been a preferred area for income investors although the sector performed poorly in Quarter 1. Is this sector becoming less attractive?

What's your outlook for the prospect of corporate bonds versus gilts?

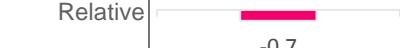
#### Performance Summary

6 Months (%)

12 Months (%)

3 years (%)

Since Inception (% p.a.)  
(1 July 2006)

| Paisley CGF |      |   |
|-------------|------|---|
| Fund        | -1.5 |   |
| Benchmark   | -0.8 |   |
| Relative    | -0.7 |  |
| Fund        | 2.1  |   |
| Benchmark   | 1.5  |   |
| Relative    | 0.6  |  |
| Fund        | 6.5  |   |
| Benchmark   | 6.5  |   |
| Relative    | 0.0  |  |
| Fund        | 6.8  |   |
| Benchmark   | 6.8  |   |
| Relative    | 0.0  |  |

## Renfrew Common Good Fund: Allocation and Performance

### Commentary on Renfrew Common Good Fund

The Fund, in aggregate, returned -1.5% between end September 2017 (the effective date of the immediately preceding report) and end March 2018; over the same period, the benchmark achieved a return of -0.8%. Fund returns had remained positive in absolute terms until the end of 2017 but the first quarter of 2018 saw the return of volatility to the markets following a long period of unusually low volatility. This resulted in negative returns for most asset classes in Q1.

In terms of relative performance, the Fund modestly underperformed its benchmark over 6 months. This was primarily driven by equity performance in Q4 with the Fund's UK and European holdings underperforming. Positioning in favour of more cautious sectors such as utilities / consumer staples was detrimental.

In contrast, the Fund outperformed the falling market in Q1. With the relative outperformance driven by strong equity stock selection, particularly in consumer goods, healthcare and oil and gas sectors. The level of outperformance over Q1 was partially offset by the negative effect of being underweight gilts (which performed better than many asset classes, particularly equities and corporate bonds).

Over 12 months, fund returns are still positive in absolute terms (+2.2%) and ahead of benchmark by 0.7%. Since the inception of the mandate, on 1 July 2006, the Fund return of +6.8% p.a. broadly matched the benchmark return of +6.8% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end March 2018, the allocation to equities (82.0%) was modestly above the benchmark allocation (80%). The portfolio continues to be underweight in UK equities and overweight in overseas equities. This reflects the investment manager's global investment perspective.

The exposure to bonds was 15.9% at end March 2018 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2018 was 2.1% (broadly in-line with the benchmark allocation).

Questions for the investment manager;

Is the return of volatility a sign of a return to normality following a particularly benign period and do you expect it to continue; what effects will this have on your portfolio construction?

In your view, what impact will a US - China trade war have on equity and bond market valuations?

The allocation to infrastructure funds has been trimmed recently given the more negative sentiment towards infrastructure as a sector – what areas of the market will you look to for compensating yield?

Within equities, the Fund's bias in favour of Overseas equities has increased modestly, is there any particular driver for this move?

Telecoms stocks have been a preferred area for income investors although the sector performed poorly in Quarter 1. Is this sector becoming less attractive?

What's your outlook for the prospect of corporate bonds versus gilts?

### Performance Summary

6 Months (%)

Fund  
Benchmark

Renfrew CGF

-1.4  
-0.8  
-0.6

12 Months (%)

Fund  
Benchmark

2.2  
1.5  
0.7

3 years (%)

Fund  
Benchmark

6.5  
6.5

Since Inception (% p.a.)  
(1 July 2006)

Fund  
Benchmark

6.8  
6.8

Relative

0.0

Fund  
Benchmark

0.0



# Renfrewshire Council Common Good Funds

## Hymans Robertson LLP

### Appendix 1: Asset Allocation

#### Paisley Common Good Fund

Asset Allocation 30 September 2017

| Asset Class            | Benchmark     | Fund          | Difference  |
|------------------------|---------------|---------------|-------------|
| UK Equities            | 60.0%         | 48.1%         | -11.9%      |
| International Equities | 20.0%         | 35.2%         | 15.2%       |
| UK Bonds               | 18.0%         | 12.3%         | -5.7%       |
| International Bonds    | 0.0%          | 3.0%          | 3.0%        |
| Property               | 0.0%          | 0.0%          | 0.0%        |
| Cash/Other             | 2.0%          | 1.4%          | -0.6%       |
| <b>Total</b>           | <b>100.0%</b> | <b>100.0%</b> | <b>0.0%</b> |

Asset Allocation 31 March 2018

| Asset Class            | Benchmark     | Fund          | Difference  |
|------------------------|---------------|---------------|-------------|
| UK Equities            | 60.0%         | 44.9%         | -15.1%      |
| International Equities | 20.0%         | 36.9%         | 16.9%       |
| UK Bonds               | 18.0%         | 13.0%         | -5.0%       |
| International Bonds    | 0.0%          | 3.1%          | 3.1%        |
| Property               | 0.0%          | 0.0%          | 0.0%        |
| Cash/Other             | 2.0%          | 2.2%          | 0.2%        |
| <b>Total</b>           | <b>100.0%</b> | <b>100.0%</b> | <b>0.0%</b> |

#### Renfrew Common Good Fund

Asset Allocation 30 September 2017

| Asset Class            | Benchmark     | Fund          | Difference  |
|------------------------|---------------|---------------|-------------|
| UK Equities            | 60.0%         | 48.1%         | -11.9%      |
| International Equities | 20.0%         | 35.4%         | 15.4%       |
| UK Bonds               | 18.0%         | 12.4%         | -5.6%       |
| International Bonds    | 0.0%          | 2.9%          | 2.9%        |
| Property               | 0.0%          | 0.0%          | 0.0%        |
| Cash/Other             | 2.0%          | 1.2%          | -0.8%       |
| <b>Total</b>           | <b>100.0%</b> | <b>100.0%</b> | <b>0.0%</b> |

Asset Allocation 31 March 2018

| Asset Class            | Benchmark     | Fund          | Difference  |
|------------------------|---------------|---------------|-------------|
| UK Equities            | 60.0%         | 44.8%         | -15.2%      |
| International Equities | 20.0%         | 37.2%         | 17.2%       |
| UK Bonds               | 18.0%         | 13.0%         | -5.0%       |
| International Bonds    | 0.0%          | 2.9%          | 2.9%        |
| Property               | 0.0%          | 0.0%          | 0.0%        |
| Cash/Other             | 2.0%          | 2.1%          | 0.1%        |
| <b>Total</b>           | <b>100.0%</b> | <b>100.0%</b> | <b>0.0%</b> |

## Renfrewshire Council Common Good Funds

Hymans Robertson LLP

### Appendix 2: Performance by Asset Class

Paisley Common Good Fund

|                     | 6 months |             | 12 months |             | Contribution to<br>Absolute Return<br>6 months % | Contribution to<br>Relative Return<br>6 months % |
|---------------------|----------|-------------|-----------|-------------|--|--|
|                     | Fund %   | Benchmark % | Fund %    | Benchmark % |  |  |
| UK Gov't Bonds      | 3.7      | 2.3         | 1.9       | 0.5         | 0.2  | 0.1  |
| Corporate Bonds     | 0.4      | 0.6         | 4.5       | 3.0         | 0.0  | -0.1   |
| International Bonds | 0.1      | -1.3        | 1.6       | -4.0        | 0.0  | 0.0  |
| UK Equities         | -2.2     | -2.2        | 2.6       | 1.2         | -1.0   | 0.0  |
| Overseas Equities   | 0.2      | 0.6         | 3.5       | 2.8         | 0.1  | -0.1   |
| Total Assets        | -1.5     | -0.8        | 2.1       | 1.5         |  |  |

Renfrew Common Good Fund

|                     | 6 months |             | 12 months |             | Contribution to<br>Absolute Return<br>6 months % | Contribution to<br>Relative Return<br>6 months % |
|---------------------|----------|-------------|-----------|-------------|--|--|
|                     | Fund %   | Benchmark % | Fund %    | Benchmark % |  |  |
| UK Gov't Bonds      | 3.7      | 2.3         | 1.9       | 0.5         | 0.2  | 0.1  |
| Corporate Bonds     | 1.6      | 0.6         | 3.6       | 1.2         | 0.1  | -0.1   |
| International Bonds | 0.0      | -1.3        | 1.5       | -4.0        | 0.0  | 0.0  |
| UK Equities         | -2.2     | -2.2        | 2.6       | 1.2         | -1.0   | 0.0  |
| Overseas Equities   | 0.2      | 0.6         | 3.4       | 2.8         | 0.1  | -0.1   |
| Total Assets        | -1.4     | -0.8        | 2.2       | 1.5         |  |  |



## Appendix 3: Explanation of Performance Calculations

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$( (1 + \text{Fund Performance}) / (1 + \text{Benchmark Performance}) ) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture :

| <i>Arithmetic Method</i> | <b>Fund Performance</b> | <b>Benchmark Performance</b> | <b>Relative Performance</b> |
|--------------------------|-------------------------|------------------------------|-----------------------------|
| Quarter 1                | 7.0%                    | 2.0%                         | 5.00%                       |
| Quarter 2                | 28.0%                   | 33.0%                        | -5.00%                      |
| Linked 6 months          |                         |                              | -0.25%                      |
| 6 month performance      | 37.0%                   | 35.7%                        | 1.30%                       |

- If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
- If fund performance is measured half yearly, there is a relative outperformance of 1.3% over the six month period.
- The arithmetic method makes it difficult to compare long term relative performance with shorter term relative performance.

| <i>Geometric Method</i> | <b>Fund Performance</b> | <b>Benchmark Performance</b> | <b>Relative Performance</b> |
|-------------------------|-------------------------|------------------------------|-----------------------------|
| Quarter 1               | 7.0%                    | 2.0%                         | 4.90%                       |
| Quarter 2               | 28.0%                   | 33.0%                        | -3.76%                      |
| Linked 6 months         |                         |                              | 0.96%                       |
| 6 month performance     | 37.0%                   | 35.7%                        | 0.96%                       |

- If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
- If fund performance is measured half yearly, an identical result is produced.
- The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.