Renfrewshire Council

To: Investment Review Board

On: 20 November 2019

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 2019

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, Aberdeen Standard Capital 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 30 September 2019. Hymans Robertson LLP will be represented at the meeting by David Millar (Associate Consultant), who will present his report to Members. The investment manager will not be present during this part of the meeting.

1.3 Gair Brisbane, Senior Charity Portfolio Manager, Aberdeen Standard Capital 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.

2. **Recommendations**

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

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 Partnerships 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 Policy Position** – none

13. **Climate Risk** - none

List of Background Papers

None

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Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the 6 Months to 30 September 2019

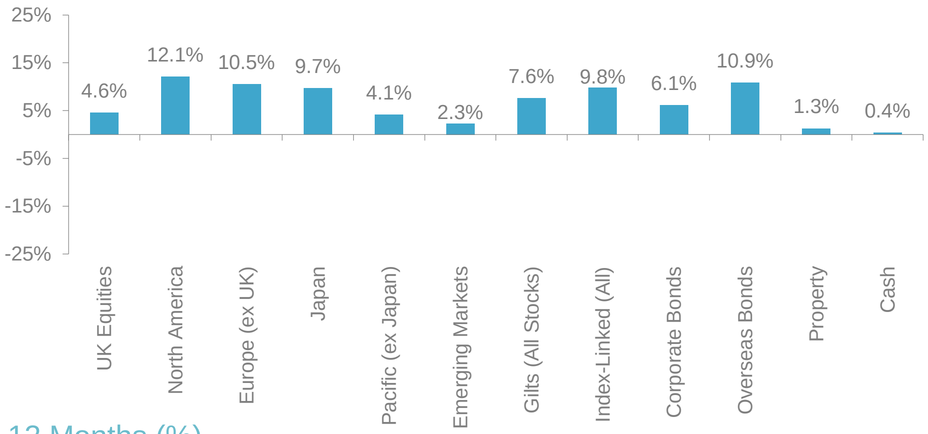
Prepared by:
David Millar- Associate Consultant
Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP
November 2019

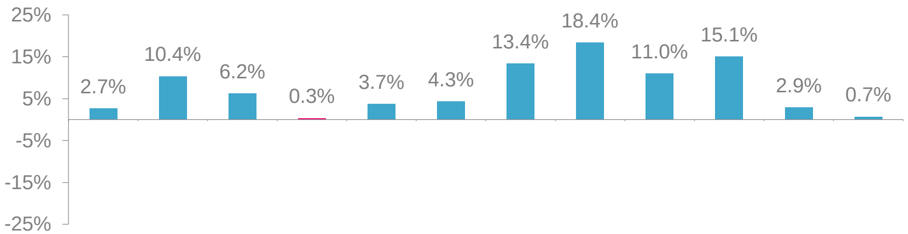
Contents

Historic Returns for World Markets to 30 September 2019

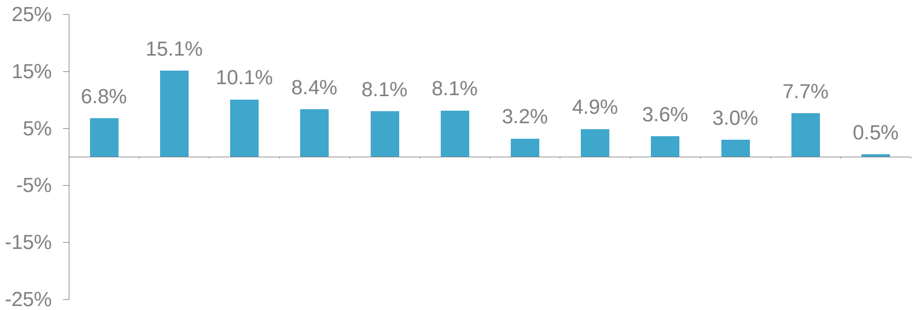
6 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comments.

The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.

The US economy has outperformed developed market peers but, here too, growth has slowed as tariffs raise costs for domestic producers and consumers. Disruption has been particularly notable in large open and export-orientated economies – in Germany, last year's fall in industrial production has worsened in 2019 on the back of trade uncertainty. Though the UK probably returned to growth in Q3, following contraction in Q2, forecasts for 2019 and 2020 have fallen, reflecting acute Brexit uncertainty and its impact on business investment.

Against this backdrop and with inflationary pressures still largely absent, the shift towards more accommodative monetary policy is now well established. The Federal Reserve cut rates for the second time in three months in September, while the ECB cut rates further in to negative territory and announced it would resume quantitative easing in November.

A fall in global government bond yields is consistent with the weakening economic data and outlook. US Treasuries outperformed, with yields falling over 0.7% p.a., while UK and German bund yields both slid 0.5% p.a. – each touching their respective record lows in August. In contrast to the US and other advanced markets, UK Implied inflation has risen in the front end of the curve, reflecting fears of a near-term spike in inflation on the back post-Brexit sterling depreciation.

Positive total returns in investment-grade credit markets were primarily driven by falling underlying government bond yields as credit spreads moved marginally tighter. European high yield spreads outperformed their investment-grade counterparts while US high yield spreads moved in-line with US investment-grade markets. In contrast, US leveraged loan spreads moved wider as expectations of further interest rate cuts have made floating-rate assets less attractive to prospective investors.

Despite volatility over the period, and May being among the worst 5 months in history, global equities produced returns of 4.7% (9.9% in Sterling terms). More accommodative monetary policy has outweighed concerns over the growth outlook and trade disputes. Europe (ex UK) was the top performing region in local currency terms, whilst the US-China trade disputes continued to weigh on Emerging Market equities. There was little overall sectoral pattern, but the cyclical Oil & Gas sector significantly underperformed while the more defensive Utilities sector outperformed.

UK commercial property produced modest returns of 1.3% over the period as capital declines, which have increasingly detracted from income and marginally positive rental growth, saw year-on-year returns slow to 2.9%.

Paisley Common Good Fund: Portfolio Summary

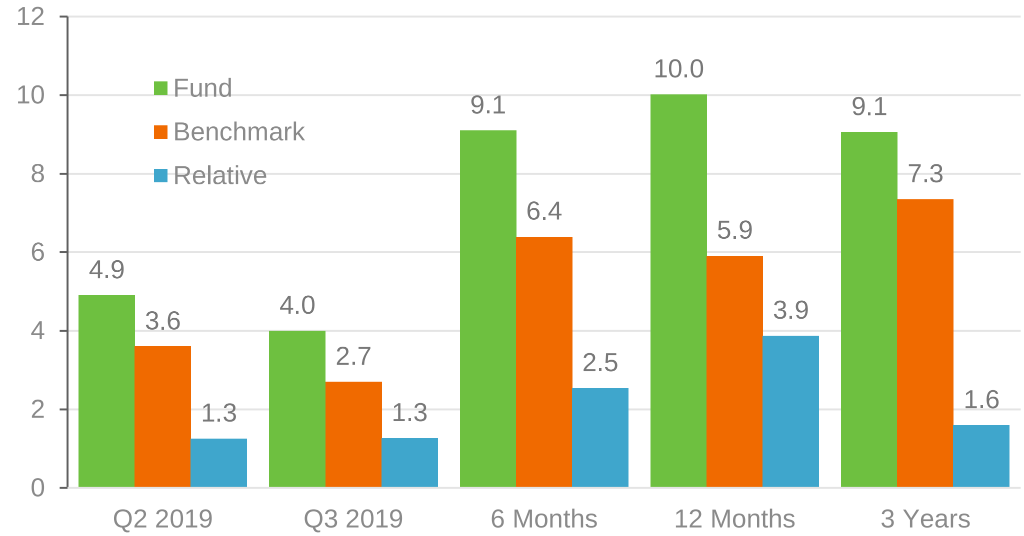
Valuation Summary

	Values (£m)		Actual Proportion	Target Proportion	Difference
	31/03/2019	30/09/2019	%	%	%
UK Equities	1.881	1.912	43.0	60.0	-17.0
International Equities	1.508	1.755	39.4	20.0	19.4
UK Bonds	0.505	0.551	12.4	18.0	-5.6
International Bonds	0.132	0.136	3.1	0.0	3.1
Property	0.000	0.000	0.0	0.0	0.0
Cash/Other	0.135	0.095	2.1	2.0	0.1
Total	**4.160**	**4.449**	**100.0%**	**100.0%**	

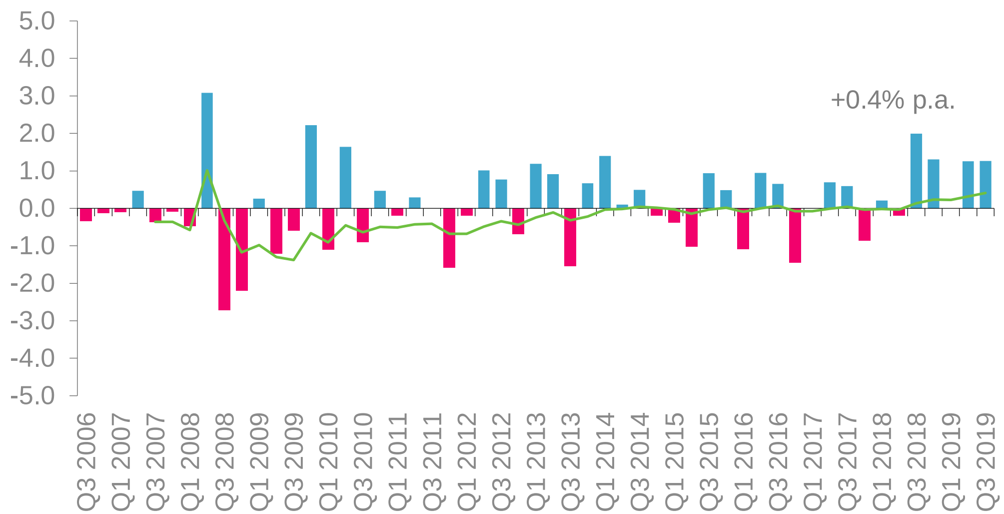
(Standard Life) Estimated Annual Income			Target
31/03/2019	30/06/2019	30/09/2019	
£147,780	**£147,014**	**£150,171**	**£113,000**

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

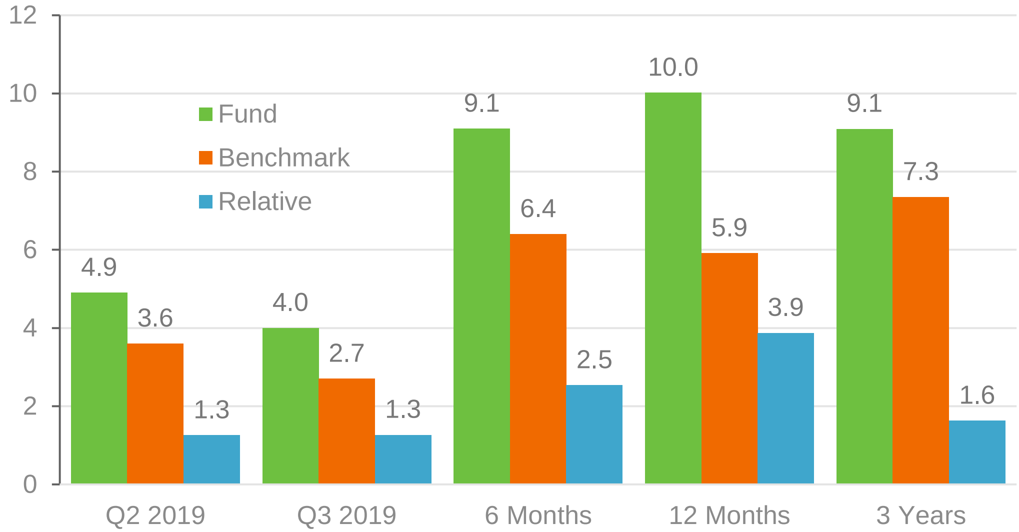
Valuation Summary

	Values (£m)		Actual Proportion	Target Proportion	Difference
	31/03/2019	30/09/2019	%	%	%
UK Equities	6.345	6.507	43.3	60.0	-16.7
International Equities	5.099	5.936	39.5	20.0	19.5
UK Bonds	1.701	1.797	12.0	18.0	-6.0
International Bonds	0.445	0.518	3.4	0.0	3.4
Property	0.000	0.000	0.0	0.0	0.0
Cash/Other	0.470	0.282	1.9	2.0	-0.1
Total	**14.061**	**15.040**	**100.0%**	**100.0%**	

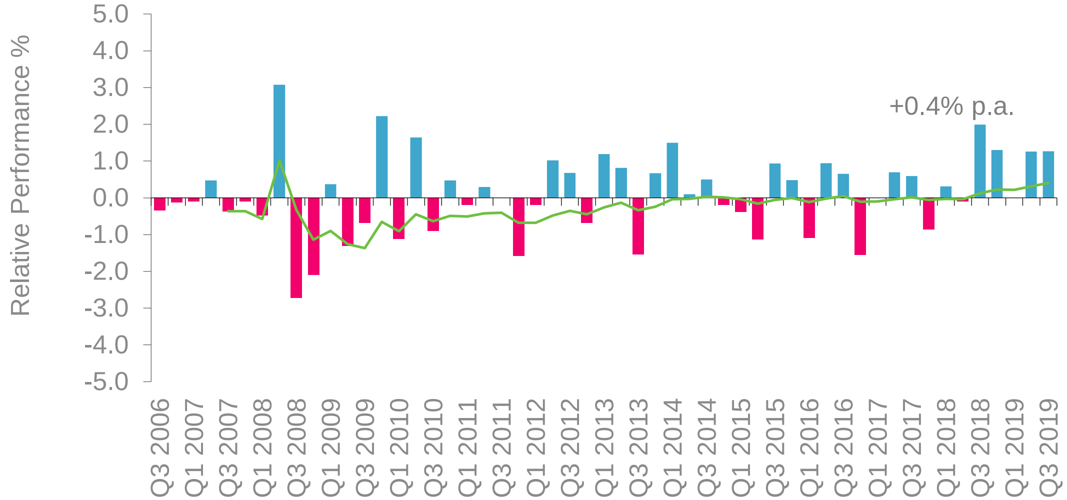
(Standard Life) Estimated Annual Income			Target
31/03/2019	30/06/2019	30/09/2019	
£479,834	**£497,704**	**£ 508,427.00**	**£380,000**

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 9.1% between end March 2019 (the effective date of the immediately preceding report) and end September 2019; over the same period, the benchmark achieved a return of 6.4%. The return over the period reflects the widespread market gains over the whole 6-month period – despite fears of slowing growth /trade wars. Accommodative central bank policies (lower interest rates) helped offset these factors.

Positive stock selection within equities was the main driver of outperformance over the 6-month period. In quarter 2, the portfolio's zero holding in the tobacco sector was particularly beneficial. In quarter 3, semi-conductor holdings boosted performance. Another strong positive contributor was consumer goods stock Estee Lauder which outperformed on the back of strong results. Within bonds, gilts outperformed corporate bonds (reflecting economic concerns) so the portfolio's underweighting of gilts in favour of corporate bonds detracted from performance.

Over 12 months, fund returns are positive in absolute terms (+10.0%) and significantly ahead of the benchmark return of 5.9%. Since the inception of the mandate, on 1 July 2006, the Fund return of +7.5% p.a. is strong in absolute terms and ahead of the benchmark return of +7.1% p.a. Both absolute and relative performance over 12 months are boosted by overseas equities which have returned 16.6% versus a benchmark return of 8.1% over the 12-month period. Throughout this time, the investment manager has met a demanding income target.

As at end of September 2019, the allocation to equities (82.4%) was 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 (and a view on Brexit where they maintain a global perspective avoiding domestic UK companies).

The exposure to bonds was 15.5% at end September 2019 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2019 was 2.1% (broadly in-line with the benchmark allocation).

Questions for the investment manager:
With indications of slowing global growth, are you considering any changes to the portfolio?

UK government gilts have outperformed corporate bonds over the last 12 months, what are the relative attractions of both asset classes and do you retain your preference for corporate bonds?

What is your view on the impact of currency exchange rates going forward?

Performance Summary

		Paisley CGF
6 Months (%)	Fund	9.1
	Benchmark	6.4
	Relative	2.5
12 Months (%)	Fund	10.0
	Benchmark	5.9
	Relative	3.9
3 years (%)	Fund	9.1
	Benchmark	7.3
	Relative	1.6
Since Inception (% p.a.) (1 July 2006)	Fund	7.5
	Benchmark	7.1
	Relative	0.4

Appendix 1: Asset Allocation

Paisley Common Good Fund

Asset Allocation 31 March 2019

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	45.2%	-14.8%
International Equities	20.0%	36.2%	16.2%
UK Bonds	18.0%	12.1%	-5.9%
International Bonds	0.0%	3.2%	3.2%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	3.2%	1.2%
Total	**100.0%**	**100.0%**	0.0%

Asset Allocation 30 September 2019

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	43.0%	-17.0%
International Equities	20.0%	39.4%	19.4%
UK Bonds	18.0%	12.4%	-5.6%
International Bonds	0.0%	3.1%	3.1%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.1%	0.1%
Total	**100.0%**	**100.0%**	0.0%

Renfrew Common Good Fund

Asset Allocation 31 March 2019

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	45.1%	-14.9%
International Equities	20.0%	36.3%	16.3%
UK Bonds	18.0%	12.1%	-5.9%
International Bonds	0.0%	3.2%	3.2%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	3.3%	1.3%
Total	**100.0%**	**100.0%**	0.0%

Asset Allocation 30 September 2019

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	43.3%	-16.7%
International Equities	20.0%	39.5%	19.5%
UK Bonds	18.0%	12.0%	-6.0%
International Bonds	0.0%	3.4%	3.4%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	1.9%	-0.1%
Total	**100.0%**	**100.0%**	0.0%

Renfrew Common Good Fund: Allocation and Performance

Commentary on Renfrew Common Good Fund

The Fund, in aggregate, returned 9.1% between end March 2019 (the effective date of the immediately preceding report) and end September 2019; over the same period, the benchmark achieved a return of 6.4%. The return over the period reflects the widespread market gains over the whole 6-month period – despite fears of slowing growth /trade wars. Accommodative central bank policies (lower interest rates) helped offset these factors.

Positive stock selection within equities was the main driver of outperformance over the 6-month period. In quarter 2, the portfolio's zero holding in the tobacco sector was particularly beneficial. In quarter 3, semi-conductor holdings boosted performance. Another strong positive contributor was consumer goods stock Estee Lauder which outperformed on the back of strong results. Within bonds, gilts outperformed corporate bonds (reflecting economic concerns) so the portfolio's underweighting of gilts in favour of corporate bonds detracted from performance.

Over 12 months, fund returns are positive in absolute terms (+10.0%) and significantly ahead of the benchmark return of 5.9%. Since the inception of the mandate, on 1 July 2006, the Fund return of +7.5% p.a. is strong in absolute terms and ahead of the benchmark return of +7.1% p.a. Both absolute and relative performance over 12 months are boosted by overseas equities which have returned 16.6% versus a benchmark return of 8.1% over the 12-month period. Throughout this time, the investment manager has met a demanding income target.

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The exposure to bonds was 15.4% at end September 2019 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2019 was 1.9% (broadly in-line with the benchmark allocation).

Questions for the investment manager:
With indications of slowing global growth, are you considering any changes to the portfolio?

UK government gilts have outperformed corporate bonds over the last 12 months, what are the relative attractions of both asset classes and do you retain your preference for corporate bonds?

What is your view on the impact of currency exchange rates going forward?

Performance Summary

		Renfrew CGF
6 Months (%)	Fund	9.1
	Benchmark	6.4
	Relative	2.5
12 Months (%)	Fund	10.0
	Benchmark	5.9
	Relative	3.9
3 years (%)	Fund	9.1
	Benchmark	7.3
	Relative	1.6
Since Inception (% p.a.) (1 July 2006)	Fund	7.5
	Benchmark	7.1
	Relative	0.4

Appendix 2: Performance by Asset Class

Paisley Common Good Fund

	6 months		12 months		Contribution to Absolute Return	Contribution to Relative Return
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	6 months %
UK Gov't Bonds	9.8	7.6	17.4	13.4	0.5	0.1
Corporate Bonds	5.3	5.8	9.4	10.2	0.4	-0.1
International Bonds	6.3	10.8	10.0	15.1	0.2	-0.1
UK Equities	4.1	4.6	3.0	2.8	1.9	-0.2
Overseas Equities	15.2	10.9	16.6	8.1	5.6	1.5
Total Assets	9.1	6.4	10.0	5.9		

Renfrew Common Good Fund

	6 months		12 months		Contribution to Absolute Return	Contribution to Relative Return
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	6 months %
UK Gov't Bonds	9.5	7.6	17.1	13.4	0.5	0.1
Corporate Bonds	5.3	5.8	9.2	10.2	0.3	-0.1
International Bonds	6.2	10.8	9.8	15.1	0.2	-0.1
UK Equities	4.1	4.6	3.0	2.8	1.8	-0.2
Overseas Equities	15.2	10.9	16.6	8.1	5.6	1.5
Total Assets	9.1	6.4	10.0	5.9		

Appendix 3: Explanation of Performance Calculations

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

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

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

Arithmetic Method

	Fund Performance	Benchmark Performance	Relative Performance
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.

Geometric Method

	Fund Performance	Benchmark Performance	Relative Performance
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.