

Notice of Meeting and Agenda Investment Review Board

Date	Time	Venue
Wednesday, 03 June 2015	11:30	CMR 2, Council Headquarters, Renfrewshire House, Cotton Street, Paisley, PA1 1AN

KENNETH GRAHAM
Head of Corporate Governance

Membership

Councillor Derek Bibby: Councillor James MacLaren: Councillor Allan Noon

Councillor Michael Holmes (Convener): Councillor Eddie Grady (Depute Convener)

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.

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 www.renfrewshire.gov.uk/agendas.

For further information, contact
democratic-services@renfrewshire.gov.uk.

Items of business

- 1 Minute of Previous Meeting** **3 - 4**
Minute of meeting held on 26 November, 2014
- 2 Information Session** **5 - 8**
Report by A Galbraith, Investment Consultant, Hymans Robertson LLP
- 3 Paisley and Renfrew Common Good Funds - Review of Investment and Income Performance** **9 - 20**
Report by the Director of Finance & Resources and briefing by A Galbraith, Investment Consultant, Hymans Robertson LLP
- 4 Paisley and Renfrew Common Good - Presentation**
Presentation by M Connor, Standard Life Wealth Limited
- 5 Date of Next Meeting**
Members are asked to note that the next meeting of the Investment Review Board will be held on Wednesday 25 November, 2015.

**MINUTE OF MEETING OF THE INVESTMENT REVIEW BOARD
HELD ON 26th NOVEMBER, 2014**

Item 1

PRESENT

Councillors Grady, Bibby, Noon and Holmes.

Councillor Holmes, Convener, presided.

IN ATTENDANCE

A MacArthur, Senior Finance Manager, and P Shiach, Committee Services Officer (both Finance & Corporate Services).

ALSO IN ATTENDANCE

A Galbraith, Investment Consultant, Hymans Robertson LLP, M Connor and J Gordon, Standard Life Wealth Limited.

1. MINUTE OF PREVIOUS MEETING

There was submitted the Minute of the meeting of the Investment Review Board held on 21st May, 2014.

DECIDED: That the Minute be noted.

2. REVIEW OF INVESTMENT PRINCIPLES

There was submitted a report by the Director of Finance & Corporate Services 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 its 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.

The report advised that the principles covered a range of issues such as which benchmark should be employed against which to assess the manager's performance, and any restrictions which the manager must observe when choosing sectors or classes of asset in which to invest.

The report intimated that the Statement of Investment Principles was last reviewed in November 2013 and was due for review. The report also indicated that there were no proposed changes to the Statement approved by the Board in November 2013. An Appendix to the report detailed the proposed Statement of Investment Principles.

DECIDED: That the Statement of Investment Principles be approved.

3. INFORMATION SESSION

There was submitted a report by A Galbraith, Hymans Robertson LLP, which made reference to UK and Overseas equities during the period 1st July to 31st October, 2014, equities versus bonds; UK, US, Eurozone and Japan's gross domestic product between quarter one 2008 to quarter two, 2014 and Global Equities, value versus growth, for the period quarter two 2006 to quarter two 2014.

The Investment Consultant commented on economic and market conditions relative to economic growth, in terms of the global perspective; economic growth in the United Kingdom, quantitative easing, inflation and its influence on economic policy, and the performance of different asset classes over the period to the end of September 2014. She indicated that equities had had a mixed return to quarter two, being strong in the United States of America and Japan, and weaker in Europe. She further advised that the Bank of England and the Federal Reserve in the United Kingdom and United States respectively had kept interest rates low and the indications were that rates would remain low at this time to prevent damaging the economic recovery. She further indicated that similar measures had been taken in Europe however these had not yet had a positive effect on the Eurozone.

There followed a question and answer session during which information on quarterly GDP and economic growth relative to the US, Europe, Japan and the UK was provided.

DECIDED: That the information be noted.

5. PAISLEY AND RENFREW COMMON GOOD FUNDS – REVIEW OF INVESTMENT AND INCOME PERFORMANCE

There was submitted a report by the Director of Finance & Corporate Services relative to the performance of the Paisley and Renfrew Common Good Funds during the quarter to 30th September, 2014. A performance review report by Hymans Robertson LLP was appended thereto.

Mr Connor presented a report in relation to the performance of the Paisley and Renfrew Common Good Funds to 30th September, 2014. The report provided an overview of world markets during 2003 to 2013 and summarised the investment landscape. The main factors which had affected the markets during the period were highlighted and an overview of the investment performance of both fund portfolios during the period was provided.

There followed a question and answer session during which Mr Connor agreed that future income estimates for the Renfrew and Paisley Common Good Funds would be presented as net figures after tax, and not gross pre-tax figures.

DECIDED:

- (i) That the reports be noted; and
- (ii) That future income estimates for the Renfrew and Paisley Common Good Funds be presented as net figures after tax, and not gross pre-tax figures.

6. DATE OF NEXT MEETING

It was noted that the next meeting of the Investment Review Board would be held in Renfrewshire House on Wednesday, 3rd June, 2015 at 11.30 am.

Investment Review Board

Meeting on Wednesday 3 June 2015

1 Review of Q1 2015 investment report

2 Comments on economic and market conditions

- 2.1 Market background; US rate outlook dominating financial markets
- 2.2 Rates outlook; later rather than sooner
- 2.3 Inflation; implications of recent trend
- 2.4 Equity markets
- 2.5 Asset class performance.

Allison Galbraith

Investment Consultant

For and on behalf of Hymans Robertson LLP

Chart 1: UK and overseas equities; 1 July 2010 to 18 May 2015

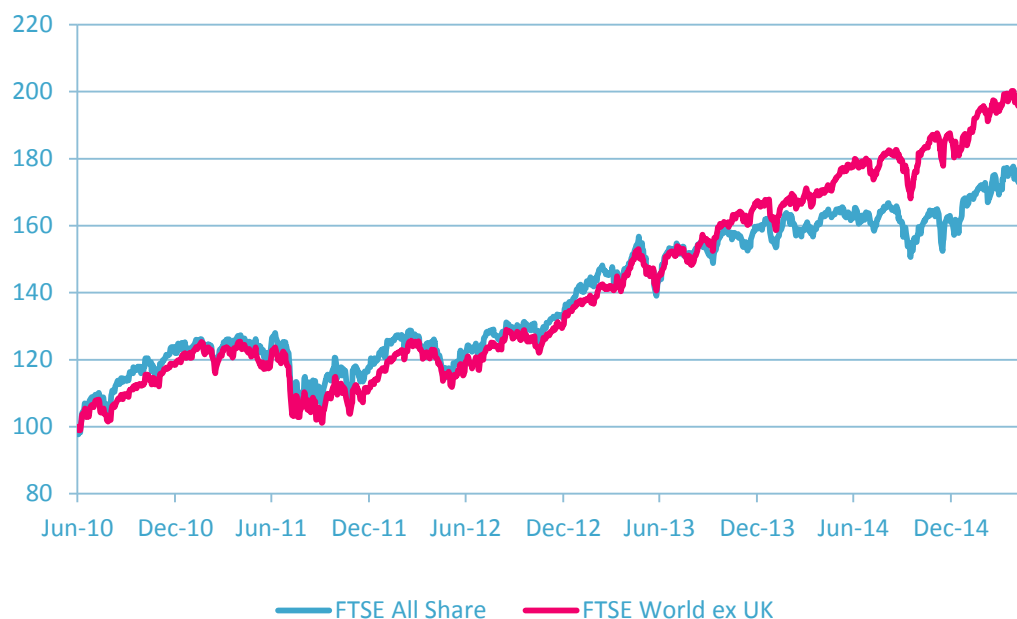


Chart 2: Equities versus Bonds; 1 July 2010 to 18 May 2015

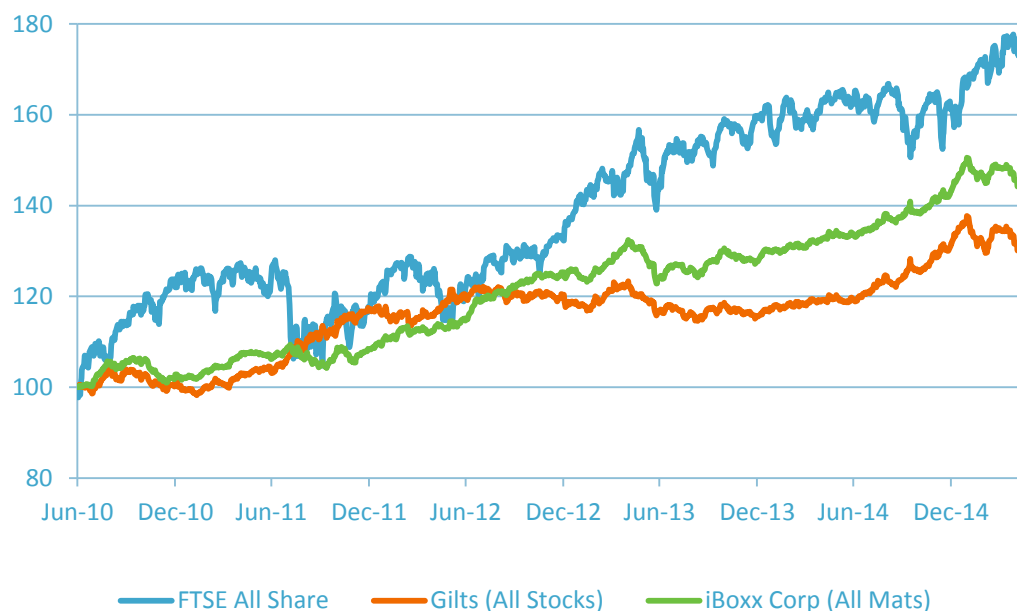


Chart 3: UK, US, Eurozone and Japan GDP; Q1 2008 to Q4 2014

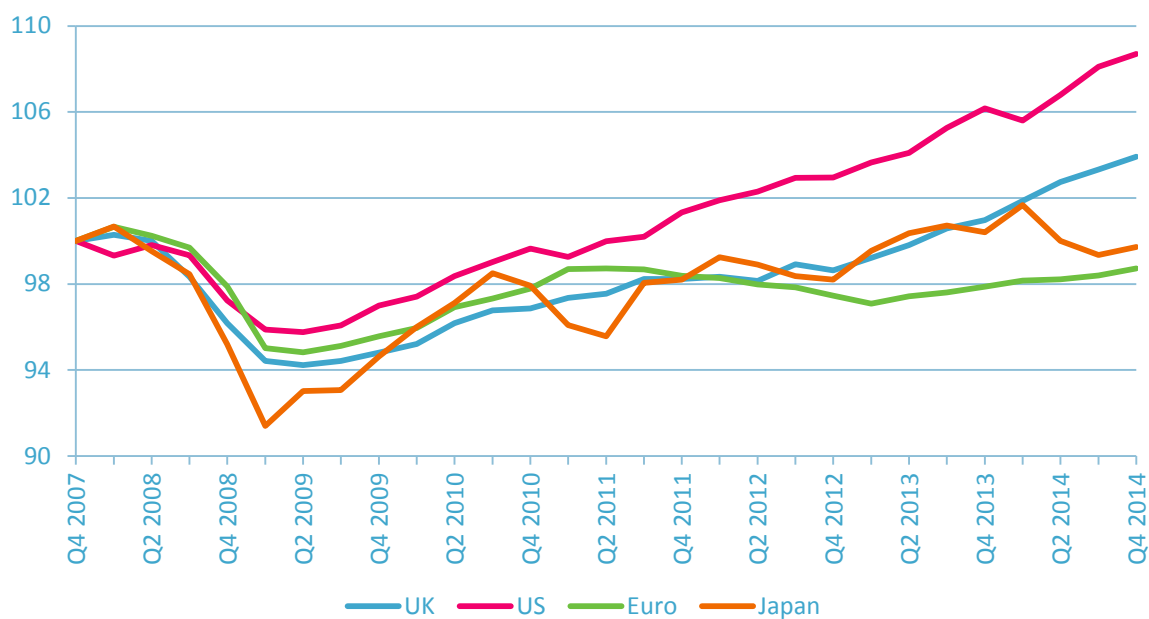


Chart 4: Global Equities – Value versus Growth; Q2 2006 to Q1 2015

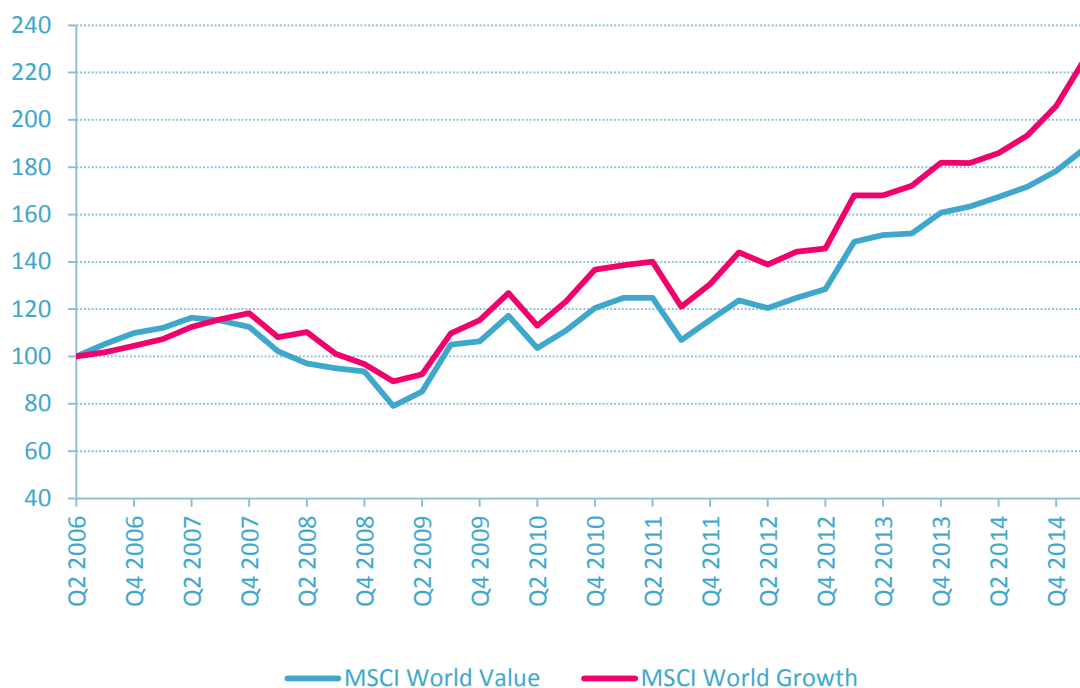


Chart 5: Headline CPI Inflation

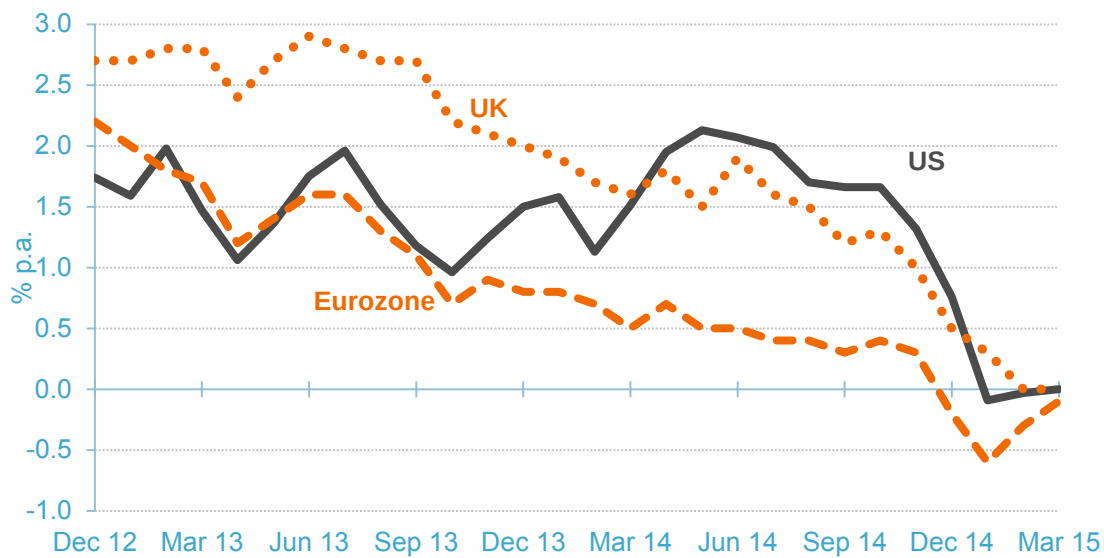
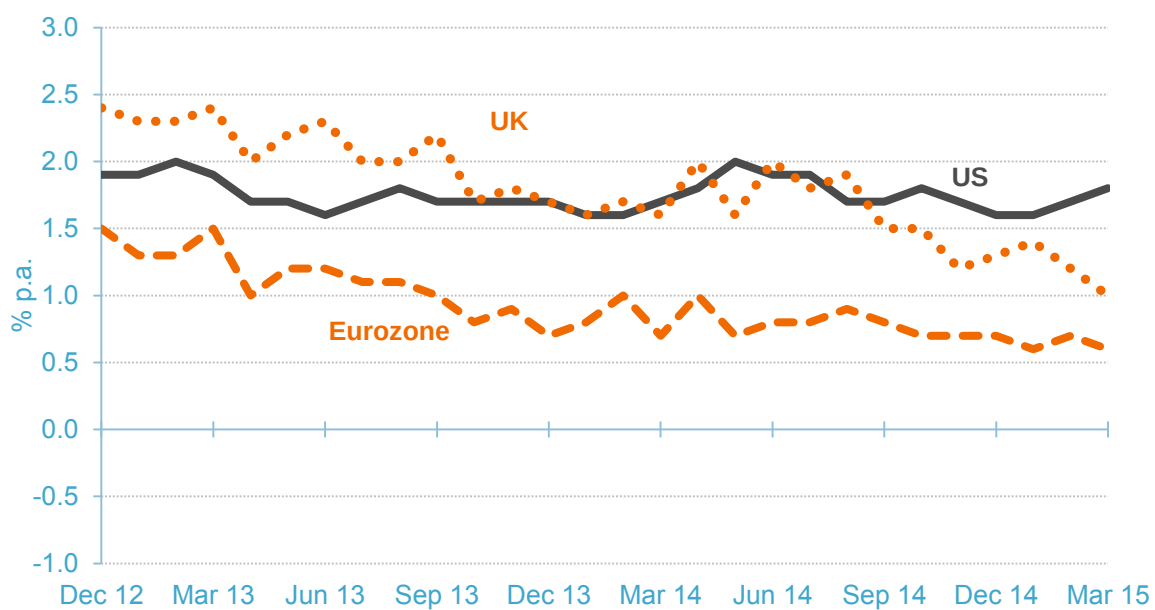


Chart 6: Core CPI Inflation



General Risk Warning

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 overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

To: Investment Review Board

On: 3 June 2015

Report by: Director of Finance & Resources

Heading: Paisley and Renfrew Common Good Funds quarterly report to 31 March 2015

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 Ltd.
- 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 quarter to 31 March 2015. Hymans Robertson LLP will be represented at the meeting by Allison Galbraith (Investment Consultant) who will present her report to Members. The investment managers will not be present during this part of the meeting.
- 1.3 Mike Connor (Private Client Head, Standard Life Wealth Ltd) will then join the meeting: He 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 reports by Hymans Robertson LLP and the presentation by Standard Life Wealth Ltd.

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 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** – the Statement of Investment Principles outlines a medium level of risk to be adopted by the Investment Manager.
11. **Privacy Impact** - *none*

Author: *Alastair MacArthur, Ext 7378*

Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the First Quarter of 2015

Prepared by:
Bruce A Lindsay - Senior Investment Consultant
Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP
May 2015

Contents

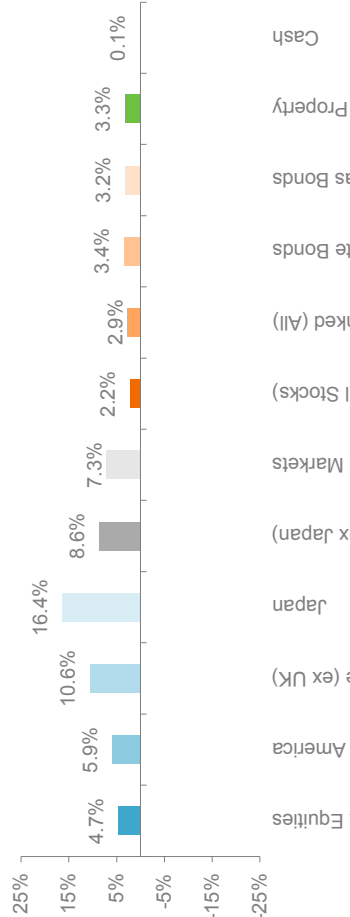
	Page
Markets	3
Portfolio Summary	4
Paisley Common Good Funds	5
Renfrew Common Good Funds	
Fund Specific Asset Allocation and Performance	
Paisley Common Good Funds	6
Renfrew Common Good Funds	7
Appendices	
Asset Allocation	8
Performance by Asset Class	9
Explanation of Performance Calculations	10

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.

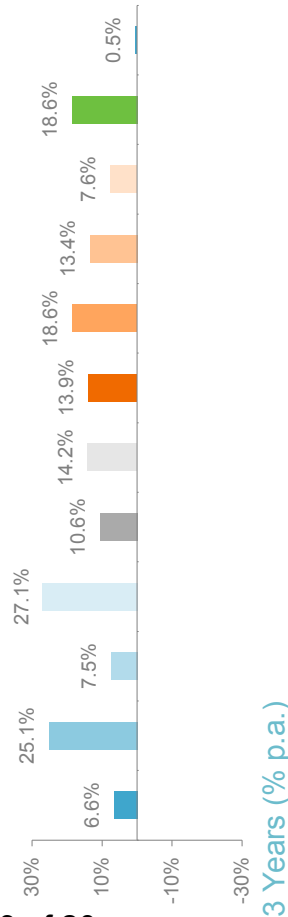
Hymans Robertson LLP, has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss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

Historic Returns for Worlds Markets to 31 March 2015

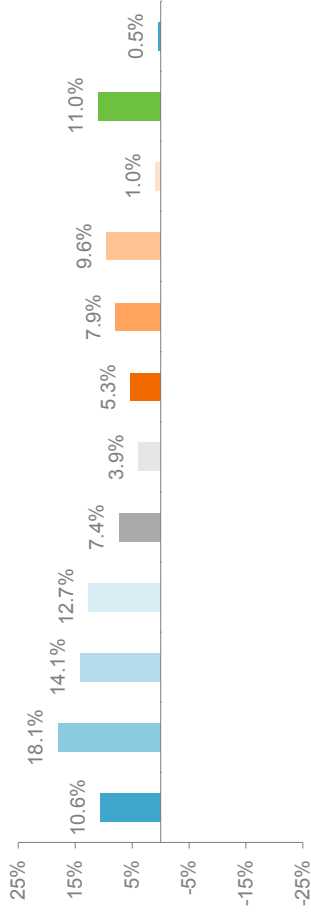
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comments

Global equity and bond markets rose during the first quarter of 2015. A major support was lower inflation, which lessened investors' concerns about short-term interest rates being raised, at least in the immediate future.

Economic news was varied. Although the US has enjoyed higher economic growth than other major markets, news during the quarter was a little disappointing. Poor weather and the impact of the strong dollar were contributory factors. In contrast, data relating to the Eurozone indicated some improvement, albeit from a very low base. The European Central Bank launched a programme of quantitative easing in March. This will result in the purchase of up to €1.1tn of government and private debt over the next eighteen months.

In the UK, official estimates for economic growth in 2014 were revised from 2.6% to 2.8%, the highest rate since 2007, and estimates for 2015 remain strong. In February, the Governor of the Bank of England expressed the view that inflation could temporarily fall below zero because of falling oil prices. recurring theme throughout the quarter was when and by how much the US might start to 'normalise' short-term interest rates from the current record low. This difficult task has to be handled with extreme care in the US, and ultimately in other major financial centres.

Key events during the quarter included;

Global Economy

- Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
- UK inflation (CPI) fell to 0% in February (lowest since records started in 2008);
- Modest deflationary pressures persisted in the Eurozone throughout the quarter;
- The US Central Bank gave mixed signals over potential rises in short-term interest rates;
- Japan's economic growth remained subdued, after emerging from recession in late 2014;
- China set 2015 growth target at 7.0%, lower than that achieved (7.4%) in 2014.

Equities

- The strongest sectors relative to the FTSE All World Index were Health Care (+5.4%) and Consumer Services (+2.6%); the weakest were Utilities (-7.0%) and Oil & Gas (-5.4%);
- Corporate activity included \$50bn merger of Heinz and Kraft Foods (US) and £10.3bn acquisition of O2 (UK) by Hutchison Whampoa of Hong Kong.

Bonds

- The Euro fell to 11 year low against US \$, unsettled by Eurozone quantitative easing;
- German five year bonds sold at a negative yield, joining Denmark, Finland and Netherlands.



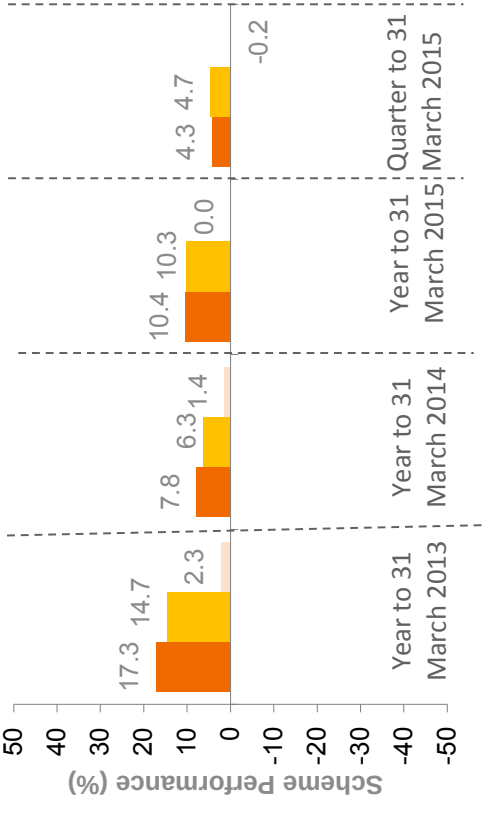
Paisley Common Goods Fund: Portfolio Summary

Valuation Summary

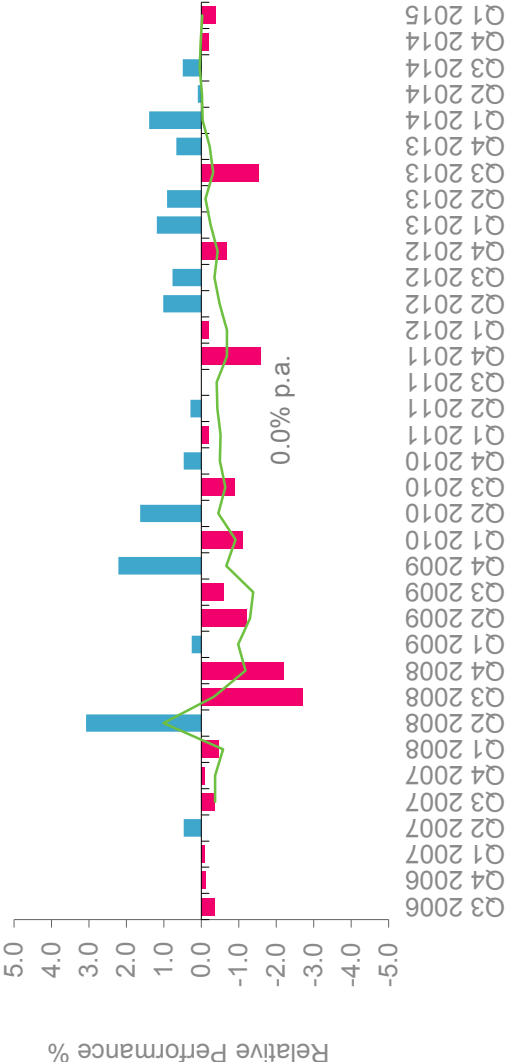
	Values (£m)		Actual Proportion %	Target Proportion %	Difference	
	31/12/2014	31/03/2015			%	
UK Equities	1.825	1.804	49.7	60.0	-10.3	
International Equities	1.015	1.110	30.6	20.0	10.6	
UK Bonds	0.566	0.573	15.8	18.0	-2.2	
International Bonds	0.072	0.046	1.3	0.0	1.3	
Property	0.000	0.000	0.0	0.0	0.0	
Cash/Other	0.025	0.094	2.6	2.0	0.6	
Total	3.503	3.626	100.0%	100.0%		
			£137,256	£141,269	* £130,823 net	£102,700

Estimated income as at 31 March 2015 is adjusted to reflect UK equity dividends on a net, cash received, basis. Previously UK equity dividends were stated on a gross basis.

Performance Summary



Relative Quarterly and Relative Cumulative Performance



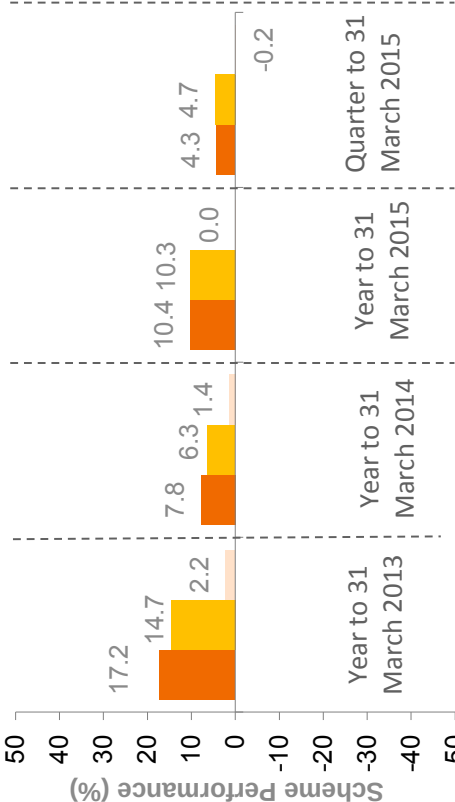
Renfrew Common Goods Fund: Portfolio Summary

Valuation Summary

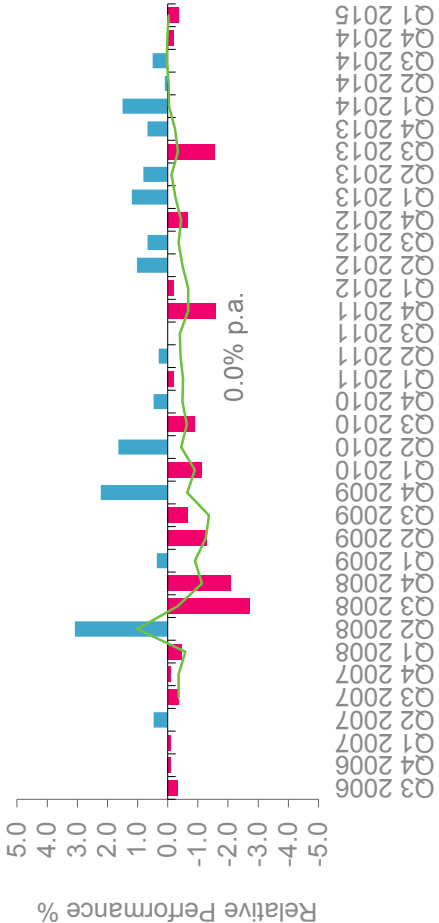
	Values (£m)		Actual Proportion %	Target Proportion %	Difference		(Standard Life) Estimated Annual Income		Target
	31/12/2014	31/03/2015			%		30/09/2014	31/03/2015	
UK Equities	6.142	5.879	48.1	60.0	-11.9				
International Equities	3.433	3.943	32.2	20.0	12.2				
UK Bonds	1.910	1.938	15.8	18.0	-2.2				
International Bonds	0.243	0.157	1.3	0.0	1.3				
Property	0.000	0.000	0.0	0.0	0.0				
Cash/Other	0.082	0.313	2.6	2.0	0.6				
Total	11.810	12.230	100.0%	100.0%			£461,805	* £439,801 net	£346,000

Estimated income as at 31 March 2015 is adjusted to reflect UK equity dividends on a net, cash received, basis. Previously UK equity dividends were stated on a gross basis.

Performance Summary



Relative Quarterly and Relative Cumulative Performance



Paisley Common Goods Fund: Allocation and Performance

Commentary on Paisley Common Goods Fund

The Fund, in aggregate, returned +4.3% during the quarter, below the benchmark return of +4.7%. During the 12 months to end March 2015, the Fund return of +10.4% was marginally ahead of the benchmark return of +10.3%. Since the inception of the mandate, on 1 July 2006, the Fund has returned +6.9% p.a., in line with the benchmark return. Throughout this time the investment manager has met a demanding income target.

As at end March 2015, the allocation to equities (80.3%) was broadly in line with 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 17.1% at end March 2015 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2015 was 2.6% (0.6% above the benchmark allocation) compared with 0.7% at the end of December 2014.

During the quarter, the only assets class that underperformed its benchmark was UK equities, with a relative return of -1.7%. The performance of overseas equities (+7.7%) was in line with the benchmark return. Both international bonds and UK Government bonds outperformed their respective benchmarks; UK performance reflected a bias toward long dated issues which outperformed their short and medium dated counterparts.

We are unable to comment in detail on the returns achieved by equities as the Investment Manager does not provide sufficient information. We suggest that the Manager be asked to provide an attribution analysis which allows us to understand more about performance by, for example, reference to (i) the ten standard sectors used to classify the FTSE All Share Index and/or the FTSE All World Index, (ii) major stock holdings and (iii) geographic regions. We would be willing to discuss alternative proposals for attribution analysis the Manager may wish to put forward.

Questions for the investment manager;

What were the main reasons for the underperformance of UK equities during the quarter (+3.0% v. benchmark +4.7%)?

What is your view of the course of interest rates over the next twelve months and how will you manage the government bond element of the portfolio in the context of your expectations?

Are you attracted to the high yield available in the oil and gas sector, despite being overweight in the sector already?

Performance Summary

3 Months (%)

Fund 4.3
Benchmark 4.7
Relative -0.4%

12 Months (%)

Fund 10.4
Benchmark 10.3
Relative 0.0%

3 years (%)

Fund 11.8
Benchmark 10.4
Relative 1.2%

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

Fund 6.9
Benchmark 6.9
Relative 0.0%



Renfrew Common Goods Fund: Allocation and Performance

Commentary on Renfrew Common Goods Fund

The Fund, in aggregate, returned +4.3% during the quarter, below the benchmark return of +4.7%. During the 12 months to end March 2015, the Fund return of +10.4% was marginally ahead of the benchmark return of +10.3%.

Since the inception of the mandate, on 1 July 2006, the Fund has returned +6.9% p.a., in line with the benchmark return. Throughout this time the investment manager has met a demanding income target.

As at end March 2015, the allocation to equities (80.3%) was broadly in line with 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 17.1% at end March 2015 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2015 was 2.6% (0.6% above the benchmark allocation) compared with 0.7% at the end of December 2014.

During the quarter, the only assets class that underperformed its benchmark was UK equities, with a relative return of -1.7%. The performance of overseas equities (+7.7%) was in line with the benchmark return. Both international bonds and UK Government bonds outperformed their respective benchmarks; UK performance reflected a bias toward long dated issues which outperformed their short and medium dated counterparts.

We are unable to comment in detail on the returns achieved by equities as the Investment Manager does not provide sufficient information. We suggest that the Manager be asked to provide an attribution analysis which allows us to understand more about performance by, for example, reference to (i) the ten standard sectors used to classify the FTSE All Share Index and/or the FTSE All World Index, (ii) major stock holdings and (iii) geographic regions. We would be willing to discuss alternative proposals for attribution analysis the Manager may wish to put forward.

Questions for the investment manager;

What were the main reasons for the underperformance of UK equities during the quarter (+3.0% v. benchmark +4.7%)?

What is your view of the course of interest rates over the next twelve months and how will you manage the government bond element of the portfolio in the context of your expectations?

Are you attracted to the high yield available in the oil and gas sector, despite being overweight in the sector already?

Performance Summary

3 Months (%)

	Renfrew CGF
Fund	4.3
Benchmark	4.7
Relative	-0.4%
Fund	10.4
Benchmark	10.3
Relative	0.0%
Fund	11.7
Benchmark	10.4
Relative	1.2%
Fund	6.9
Benchmark	6.9
Relative	0.0%

12 Months (%)

3 years (%)

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



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Appendix 1: Asset Allocation

Paisley Common Goods Fund

Asset Allocation Q4 2014

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	52.1%	-7.9%
International Equities	20.0%	29.0%	9.0%
UK Bonds	18.0%	16.2%	-1.8%
International Bonds	0.0%	2.1%	2.1%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	0.7%	-1.3%
Total	100.0%	100.0%	0.0%

Renfrew Common Goods Fund

Asset Allocation Q4 2014

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	52.0%	-8.0%
International Equities	20.0%	29.1%	9.1%
UK Bonds	18.0%	16.2%	-1.8%
International Bonds	0.0%	2.1%	2.1%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	0.7%	-1.3%
Total	100.0%	100.0%	0.0%

Asset Allocation Q1 2015

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	49.7%	-10.3%
International Equities	20.0%	30.6%	10.6%
UK Bonds	18.0%	15.8%	-2.2%
International Bonds	0.0%	1.3%	1.3%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.6%	0.6%
Total	100.0%	100.0%	0.0%

Asset Allocation Q1 2015

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	48.1%	-11.9%
International Equities	20.0%	32.2%	12.2%
UK Bonds	18.0%	15.8%	-2.2%
International Bonds	0.0%	1.3%	1.3%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.6%	0.6%
Total	100.0%	100.0%	0.0%

Appendix 2: Performance by Asset Class

Renfrew Common Goods Fund

	3 months		12 months	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Bonds	2.9	2.2	21.3	13.9
International Bonds	6.2	3.2	13.3	8.1
UK Equities	3.0	4.7	7.7	6.6
Overseas Equities	7.7	7.7	14.9	20.0
Total Assets	4.3	4.7	10.4	10.3

Paisley Common Goods Fund

	3 months		12 months	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Bonds	2.9	2.2	21.4	13.9
International Bonds	6.1	3.2	13.2	8.1
UK Equities	3.0	4.7	7.7	6.6
Overseas Equities	7.7	7.7	15.0	20.0
Total Assets	4.3	4.7	10.4	10.3



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 :

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.