

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.
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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



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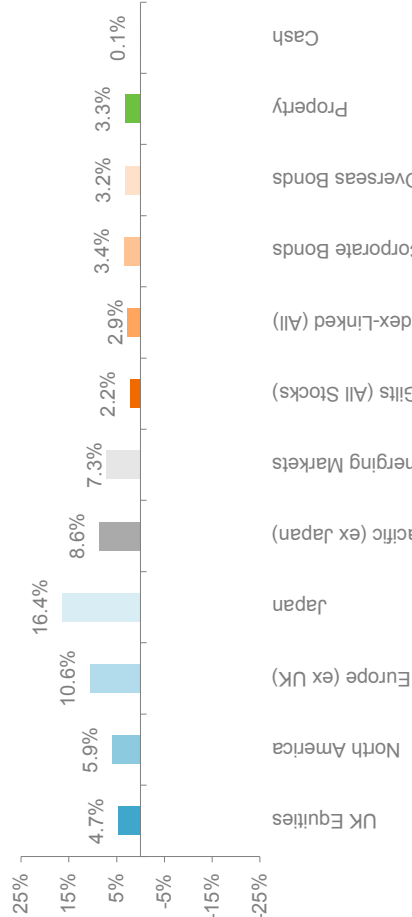
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in 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.

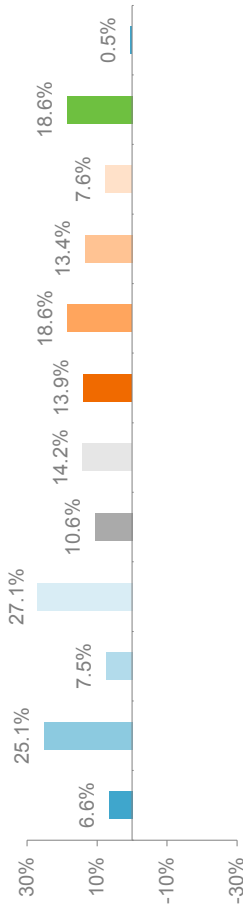
Hymans Robertson LLP, has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss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

Historic Returns for Worlds Markets to 31 March 2015

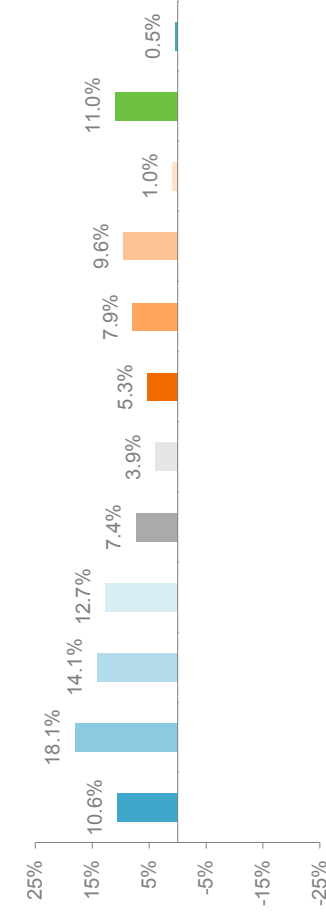
3 Months (%)



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.

Renfrewshire Council Common Good Funds

Hymans Robertson LLP

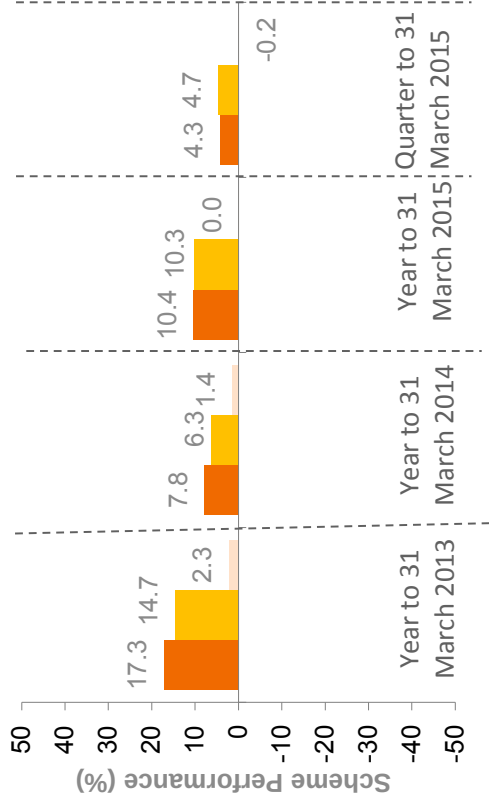
Paisley Common Goods Fund: Portfolio Summary

Valuation Summary

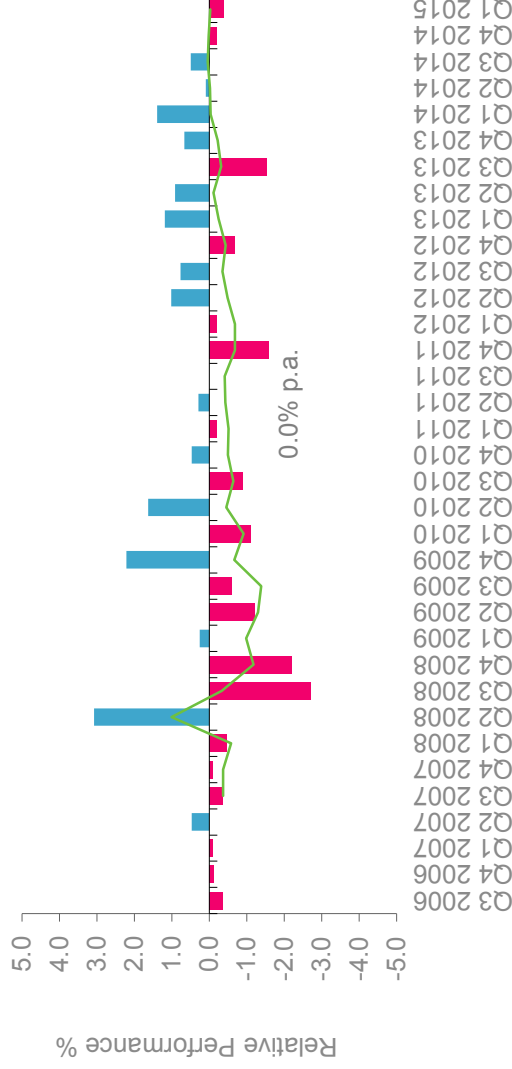
	Values (£m)		Actual Proportion %	Target Proportion %	Difference	
	31/12/2014	31/03/2015			%	
UK Equities	1.825	1.804	49.7	60.0	-10.3	
International Equities	1.015	1.110	30.6	20.0	10.6	
UK Bonds	0.566	0.573	15.8	18.0	-2.2	
International Bonds	0.072	0.046	1.3	0.0	1.3	
Property	0.000	0.000	0.0	0.0	0.0	
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



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

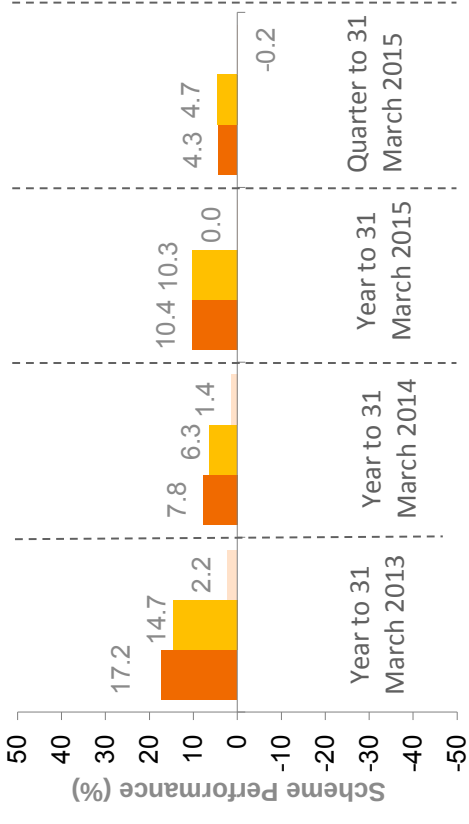
Renfrew Common Goods Fund: Portfolio Summary

Valuation Summary

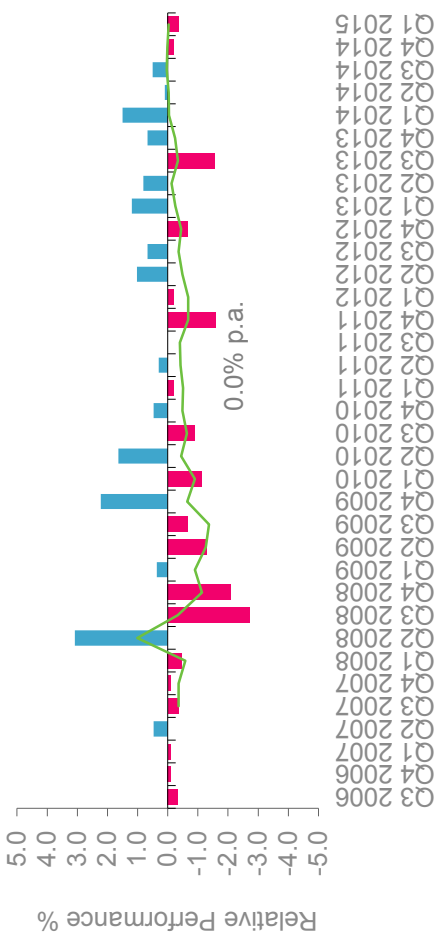
	Values (£m)		Actual Proportion %	Target Proportion %	Difference		(Standard Life) Estimated Annual Income		Target
	31/12/2014	31/03/2015			%		30/09/2014	31/03/2015	
UK Equities	6.142	5.879	48.1	60.0	-11.9				
International Equities	3.433	3.943	32.2	20.0	12.2				
UK Bonds	1.910	1.938	15.8	18.0	-2.2				
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



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

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	Paisley CGF
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%	



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

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.

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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%

12 Months (%)

Fund	10.4
Benchmark	10.3
Relative	0.0%

3 years (%)

Fund	11.7
Benchmark	10.4
Relative	1.2%

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

Fund	6.9
Benchmark	6.9
Relative	0.0%



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%

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%

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%	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%

Renfrewshire Council Common Good Funds

Hymans Robertson LLP

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.