Renfrewshire Council

To: Investment Review Board

On: 21 June 2022

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds report to 31 March 2022

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1. **Summary**

1.1 Hymans Robertson LLP have been engaged by the Council to provide investment advice relating to the Paisley and Renfrew Common Good Funds, and to assess the performance of the Funds' investment managers, abrdn.

1.2 A presentation and a report by Hymans Robertson LLP are attached for Members' consideration. The presentation provides an update on markets and the current economic climate. The report provides an assessment of the performance of the Funds' investments and income levels during the six-month period ending 31 March 2022. Hymans Robertson LLP will be represented at the meeting by Kameel Kapitan (Investment Consultant), who will present the report to Members.

1.3 Gair Brisbane, Senior Charity Portfolio Manager, abrdn (formerly Aberdeen Standard Capital Limited), will give a short presentation during which there will be an opportunity for Members to ask questions directly in respect of the presentation and the Fund performance.

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2. **Recommendations**

2.1 To consider the attached presentation and report from Hymans Robertson LLP and the presentation by abrdn.

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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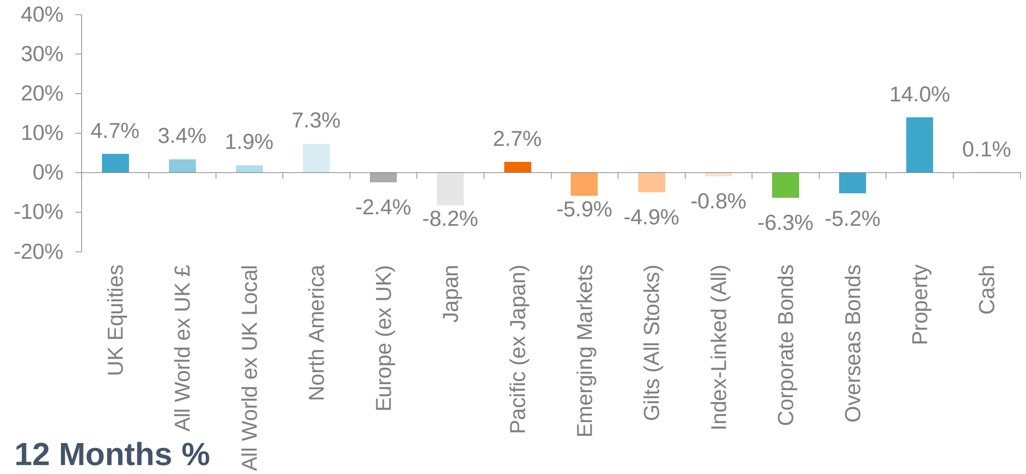
Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the 6 months to 31 March 2022

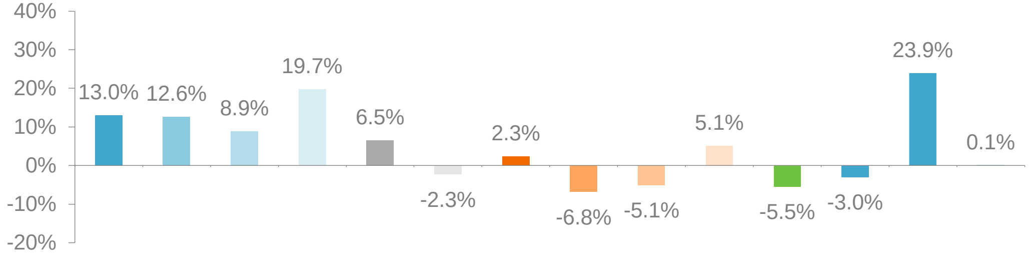
Kameel Kapitan, Investment Consultant

Market Background – 6 Months to 31 March 2022[1]

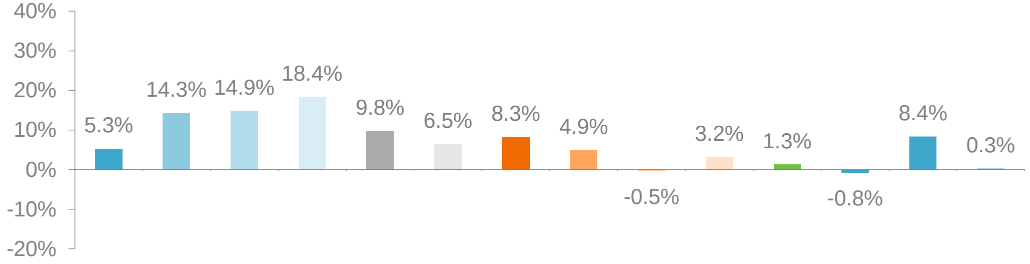
6 Months %



12 Months %



3 Years % p.a.



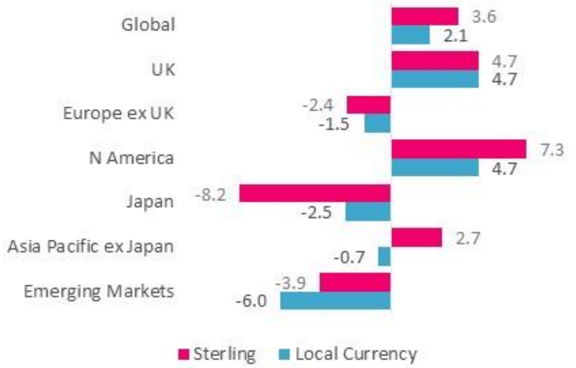
Over the 6 month period to end March 2022 economic momentum slowed with attention turning to supply chain disruptions and rising inflation. Additionally, physical disruptions and sanctions caused by the Russia-Ukraine conflict triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real income.

Global equity markets returned 2.1% (local currency) over the period although it was very much a tale of two halves, a resilient Q4 largely offset by negative returns in Q1. Amid the surge in oil and gas prices, the energy sector notably outperformed whilst commodity price rises also benefitted basic materials. Utilities also outperformed. Rising input costs and a squeeze on real incomes weighed on the industrial and consumer discretionary sectors, respectively, while yield rises weighed on tech sector valuations.

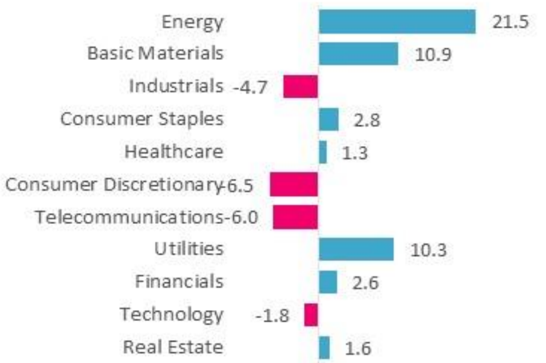
The UK outperformed, given its above-average exposure to energy, metals, and miners, whilst the utilities sector supported US outperformance. Emerging markets underperformed, pulled lower by Chinese growth concerns where fears over tighter regulation have been compounded by a slowdown in the Chinese property and manufacturing sectors, and renewed lockdowns.

In fixed income markets, both nominal and index-linked gilts suffered in the rising yield environment although the latter held up better due to investors demand for inflation protection. Within investment grade credit markets, spreads increased by 0.35% p.a., while US and European speculative-grade spreads increased 0.28% p.a. and 0.96% p.a., respectively. Larger increases in European spreads perhaps reflect expectations of a larger negative economic impact from the Russia-Ukraine conflict.

Regional Equity Returns % [2]



Global Equity Sector Returns % [3]



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All Share, FTSE all World ex UK £, FTSE All World ex UK Local, FTSE North America, FTSE AW Developed Europe ex-UK, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, MSCI Emerging, FTSE Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BoA Global Govt Bond ex UK, MSCI UK Monthly Property; UK Interbank 7 Day. [2] FTSE All World Indices. Commentary compares regional equity returns in local currency. [3] Returns shown relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021 – returns for Real Estate will be included when there is a sufficient track record.

Valuation and Performance - Paisley Common Good Fund

Valuation

	Value (£m)		Proportions		
	30/09/2021	31/03/2022	Actual %	Benchmark %	Difference
UK Equity	1.91	1.71	32.6%	60.0%	-27.4%
Overseas Equity	2.49	2.73	51.8%	20.0%	
Total Equity	4.40	4.44	84.5%	80.0%	4.5%
UK Government Bonds	0.25	0.28	5.2%	18.0%	-12.8%
UK Non Government Bonds	0.39	0.28	5.3%		5.3%
International Bonds	0.17	0.10	2.0%		2.0%
Total Bonds	0.81	0.66	12.5%	18.0%	-5.5%
Cash	0.07	0.16	3.1%	2.0%	1.1%
Total	**5.28**	**5.26**			

Income

(Standard Life) Estimated Annual Income	
30/09/2021	£169,442
31/12/2021	£156,509
31/03/2022	£158,412
Target	£113,000

Performance

Cumulative Performance

Valuation and Performance - Renfrew Common Good Fund

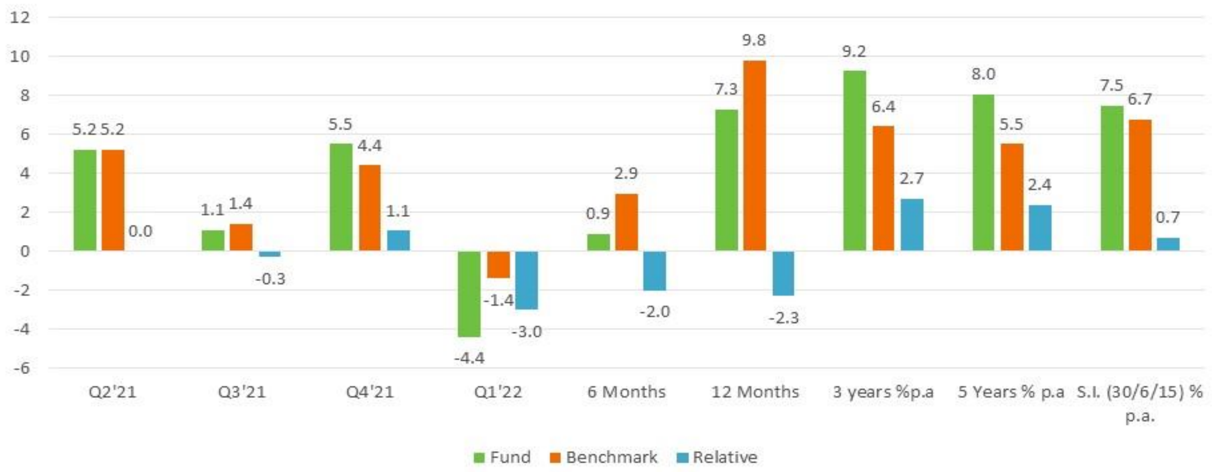
Valuation

	Value (£m)		Proportions		
	30/09/2021	31/03/2022	Actual %	Benchmark %	Difference
UK Equity	7.32	6.55	32.6%	60.0%	-27.4%
Overseas Equity	9.37	10.34	51.5%	20.0%	
Total Equity	16.70	16.89	84.2%	80.0%	4.2%
UK Government Bonds	0.84	0.95	4.7%	18.0%	-13.3%
UK Non Government Bonds	1.53	1.17	5.8%		5.8%
International Bonds	0.72	0.39	2.0%		2.0%
Total Bonds	3.10	2.51	12.5%	18.0%	-5.5%
Cash	0.31	0.66	3.3%	2.0%	1.3%
Total	**20.10**	**20.07**			

Income

(Standard Life) Estimated Annual Income	
30/09/2021	£649,710
31/12/2021	£559,470
31/03/2022	£608,183
Target	£380,000

Performance



Cumulative Performance

HYMANS ROBERTSON

Commentary

The Paisley and Renfrew funds in aggregate, returned around 0.7% and 0.9% respectively over the 6 months to 31 March 2022; over the same period, the benchmark achieved a return of 2.3%. Strong Q4 2021 returns for both funds (around 5.5%) were largely offset by Q1 2022 performance as the initial shock of the Russia-Ukraine conflict impacted markets. Within fixed income markets, the rising inflation backdrop has seen central banks turn hawkish, with markets pricing in numerous rate hikes by central banks over 2022 and 2023. Fixed interest government bonds continued to struggle in this environment and whilst real yields rose over Q2, over the 12 months to end Mach 2022 index-linked bonds have benefited, with investors seeking inflation protection.

Performance over Q4 2021 was strong in absolute terms and ahead benchmark (4.4%). Markets proved resilient despite the emergence of the Omicron variant. Global equities were the main driver propelled higher by strong earnings growth. The technology holdings within the portfolio will have benefited in this environment.

Concerns about central bank tightening, slowing earning momentum and the geopolitical situation all contributed to a volatile Q1 environment in which the vast majority of asset classes struggled. Against this backdrop the funds returned around -4.5%, underperforming the benchmark return of -1.4%. Q1 2022 saw a rotation back into more cyclical stocks, with value notably outperforming growth as a style – a rising interest rate environment weighs more heavily on the valuations of companies with earnings growth further into the future such as those in the technology sector. A bias towards quality and sustainable growth companies within the portfolios and away from value helps explain in part the divergence in performance from the index over this period.

Over 12 months, fund returns are very positive in absolute terms (just over 7%) albeit behind the benchmark return of 9.8%. However, returns over 3 and 5 years remain strong in both absolute and relative terms. Returns of 9.2% p.a. and 8.0% p.a. are significantly ahead of benchmark (6.4% p.a. and 5.5% p.a. respectively). Since the inception of the mandate, on 1 July 2006, the Fund return of +7.5% p.a. is strong in absolute terms and comfortably ahead of the benchmark return of +6.7% p.a. Furthermore, throughout this time the investment manager has continued to comfortably meet a demanding income target.

As at the end of March 2022, the allocation to equities (c84%) was above the benchmark allocation (80%). The portfolio continues to be significantly underweight to UK equities and overweight in overseas equities. The underweighting to UK equities has been beneficial over the longer term as UK equities have lagged other regions, albeit the reverse has been true over 2022 to date. The marginal overweight to equities as whole has been beneficial as equities have outperformed bonds. Going forward, the manager may look to reconsider the regional balance given market outlook.

The exposure to bonds was 12.5% at end March 2022 compared to a benchmark allocation of 18%. The allocation to cash at end March 2022 was around 3% (c1% above the 2% benchmark allocation), possibly reflective of a more defensive positioning in the current volatile environment.

Appendices

Asset Allocation

Paisley Common Good Fund

30/09/2021	Benchmark	Fund	Difference
UK Equity	60.0%	36.3%	-23.7%
Overseas Equity	20.0%	47.1%	27.1%
Total Equity	80.0%	83.4%	3.4%
UK Government Bonds	18.0%	4.7%	-13.3%
UK Non Government Bonds		7.4%	7.4%
International Bonds		3.2%	3.2%
Total Bonds	18.0%	15.3%	-2.7%
Cash	2.0%	1.3%	-0.7%
Total	100.0%	100.0%	

31/03/2022	Benchmark	Fund	Difference
UK Equity	60.0%	32.6%	-27.4%
Overseas Equity	20.0%	51.8%	
Total Equity	80.0%	84.5%	4.5%
UK Government Bonds	18.0%	5.2%	-12.8%
UK Non Government Bonds		5.3%	5.3%
International Bonds		2.0%	2.0%
Total Bonds	18.0%	12.5%	-5.5%
Cash	2.0%	3.1%	1.1%
Total	100.0%	100.0%	

Renfrew Common Good Fund

30/09/2021	Benchmark	Fund	Difference
UK Equity	60.0%	36.4%	-23.6%
Overseas Equity	20.0%	46.6%	26.6%
Total Equity	80.0%	83.1%	3.1%
UK Government Bonds	18.0%	4.2%	-13.8%
UK Non Government Bonds		7.6%	7.6%
International Bonds		3.6%	3.6%
Total Bonds	18.0%	15.4%	-2.6%
Cash	2.0%	1.5%	-0.5%
Total	100.0%	100.0%	

31/03/2022	Benchmark	Fund	Difference
UK Equity	60.0%	32.6%	-27.4%
Overseas Equity	20.0%	51.5%	
Total Equity	80.0%	84.2%	4.2%
UK Government Bonds	18.0%	4.7%	-13.3%
UK Non Government Bonds		5.8%	5.8%
International Bonds		2.0%	2.0%
Total Bonds	18.0%	12.5%	-5.5%
Cash	2.0%	3.3%	1.3%
Total	100.0%	100.0%	

Appendix 4 – 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.

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, investment 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.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.