

To: Investment Review Board

On: 13 June 2018

Report by: Director of Finance and Resources

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

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.

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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Renfrewshire Council Common Good Funds

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



Prepared by:

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For and on behalf of Hymans Robertson LLP

June 2018

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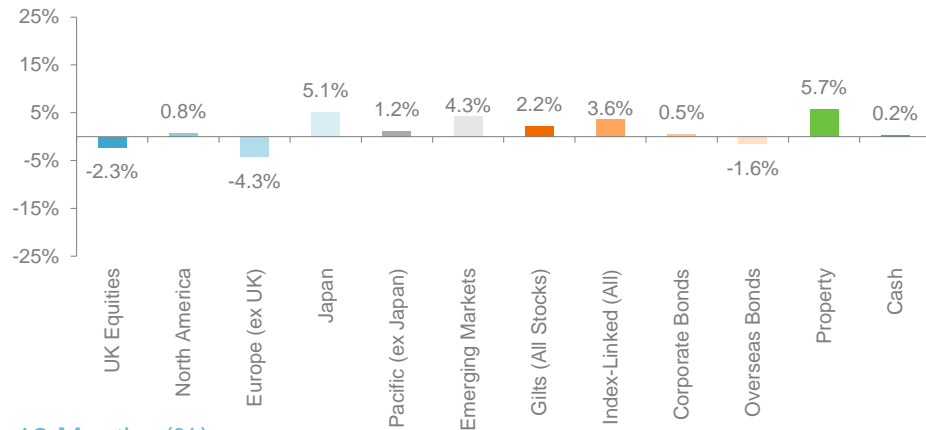
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile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

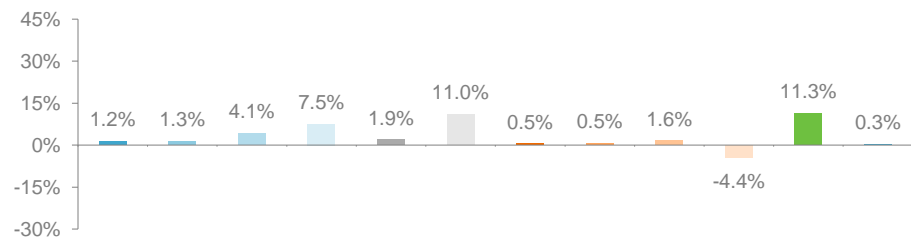


Historic Returns for World Markets to 31 March 2018

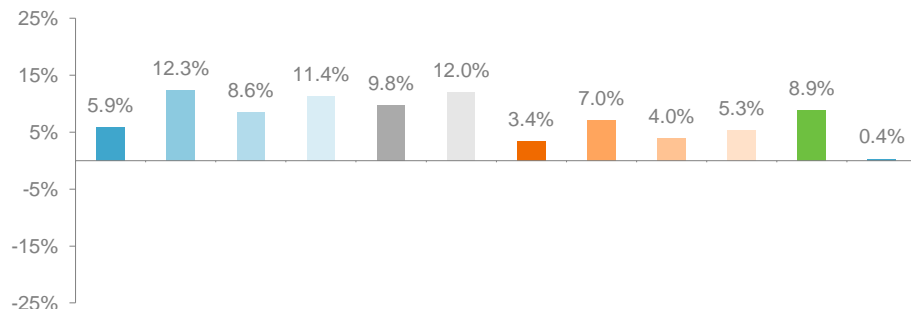
6 Months (%)



12 Months (%)



3 Years (% p.a.)



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.



Paisley Common Good Fund: Portfolio Summary

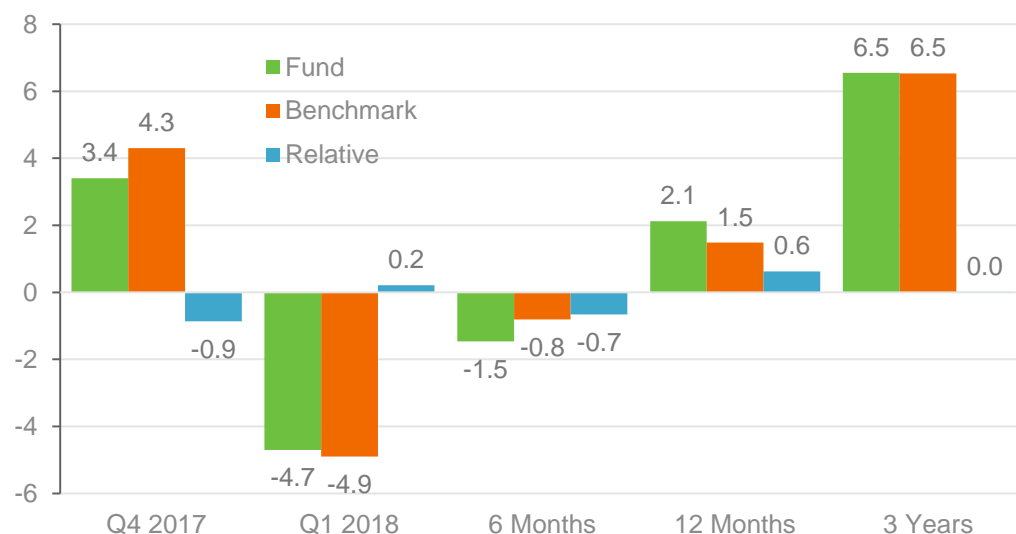
Valuation Summary

	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	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
Total	4.022	3.911	100.0%	100.0%	

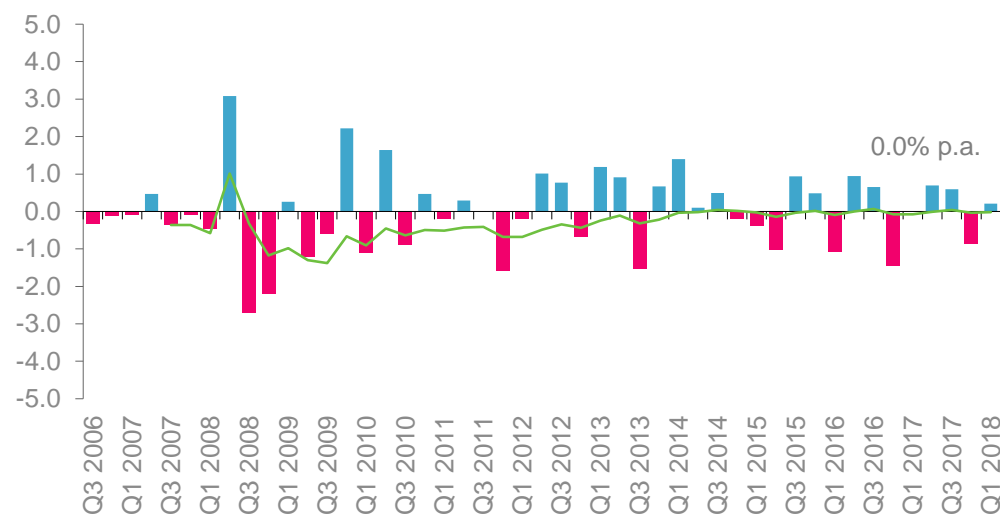
(Standard Life) Estimated Annual Income			Target
30/09/2017	29/12/2017	31/03/2018	
£149,564	£147,906	£147,737	£102,700

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

Performance Summary



Relative Quarterly and Relative Cumulative Performance



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Renfrew Common Good Fund: Portfolio Summary

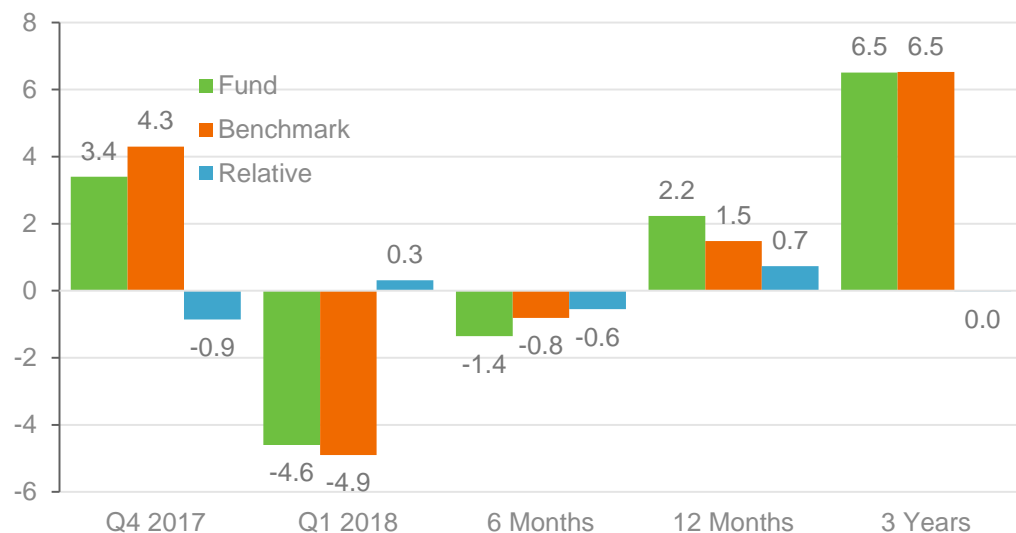
Valuation Summary

	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	30/09/2017	31/03/2018			
UK Equities	6.535	5.921	44.8	60.0	-15.2
International Equities	4.805	4.912	37.2	20.0	17.2
UK Bonds	1.683	1.724	13.0	18.0	-5.0
International Bonds	0.397	0.386	2.9	0.0	2.9
Property	0.000	0.000	0.0	0.0	0.0
Cash/Other	0.169	0.277	2.1	2.0	0.1
Total	13.589	13.219	100.0%	100.0%	

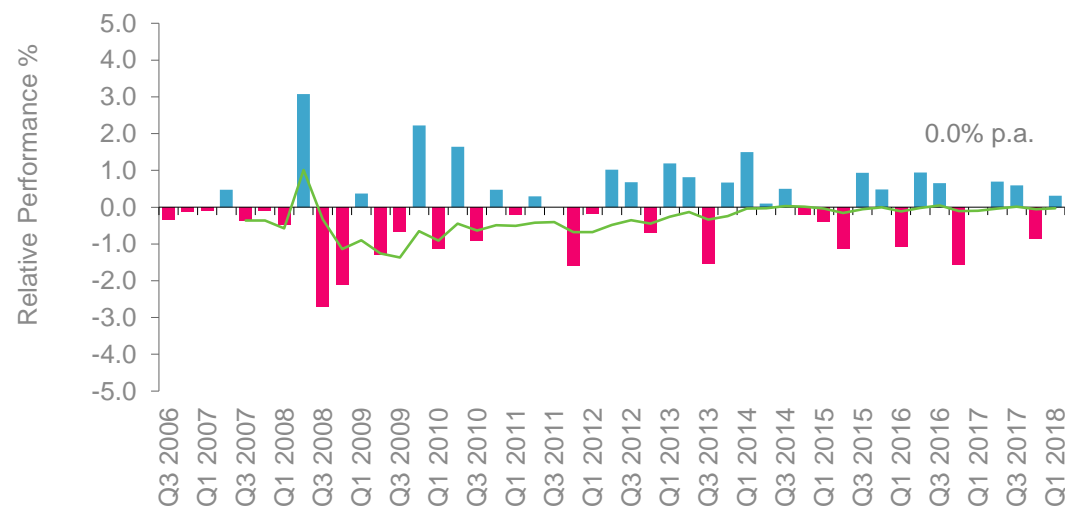
(Standard Life) Estimated Annual Income			Target
30/09/2017	29/12/2017	31/03/2018	
£506,829	£501,160	£ 499,993.00	£346,000

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 -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 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

		Paisley CGF
6 Months (%)	Fund	-1.5
	Benchmark	-0.8
	Relative	-0.7
12 Months (%)	Fund	2.1
	Benchmark	1.5
	Relative	0.6
3 years (%)	Fund	6.5
	Benchmark	6.5
	Relative	0.0
Since Inception (% p.a.) (1 July 2006)	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

		Renfrew CGF
6 Months (%)	Fund	-1.4
	Benchmark	-0.8
	Relative	-0.6
12 Months (%)	Fund	2.2
	Benchmark	1.5
	Relative	0.7
3 years (%)	Fund	6.5
	Benchmark	6.5
	Relative	0.0
Since Inception (% p.a.) (1 July 2006)	Fund	6.8
	Benchmark	6.8
	Relative	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%
Total	100.0%	100.0%	0.0%

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%
Total	100.0%	100.0%	0.0%

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%
Total	100.0%	100.0%	0.0%

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%
Total	100.0%	100.0%	0.0%



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

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	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 Absolute Return	Contribution to Relative Return
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	6 months %
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 :

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.