To: Investment Review Board

On: 9 June 2021

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 31 March 2021

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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 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 2021. Hymans Robertson LLP will be represented at the meeting by David Millar (Associate Consultant), who will present his report to Members.

1.3 Gair Brisbane, Senior Charity Portfolio Manager, Aberdeen Standard Capital Limited, 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 presentation and 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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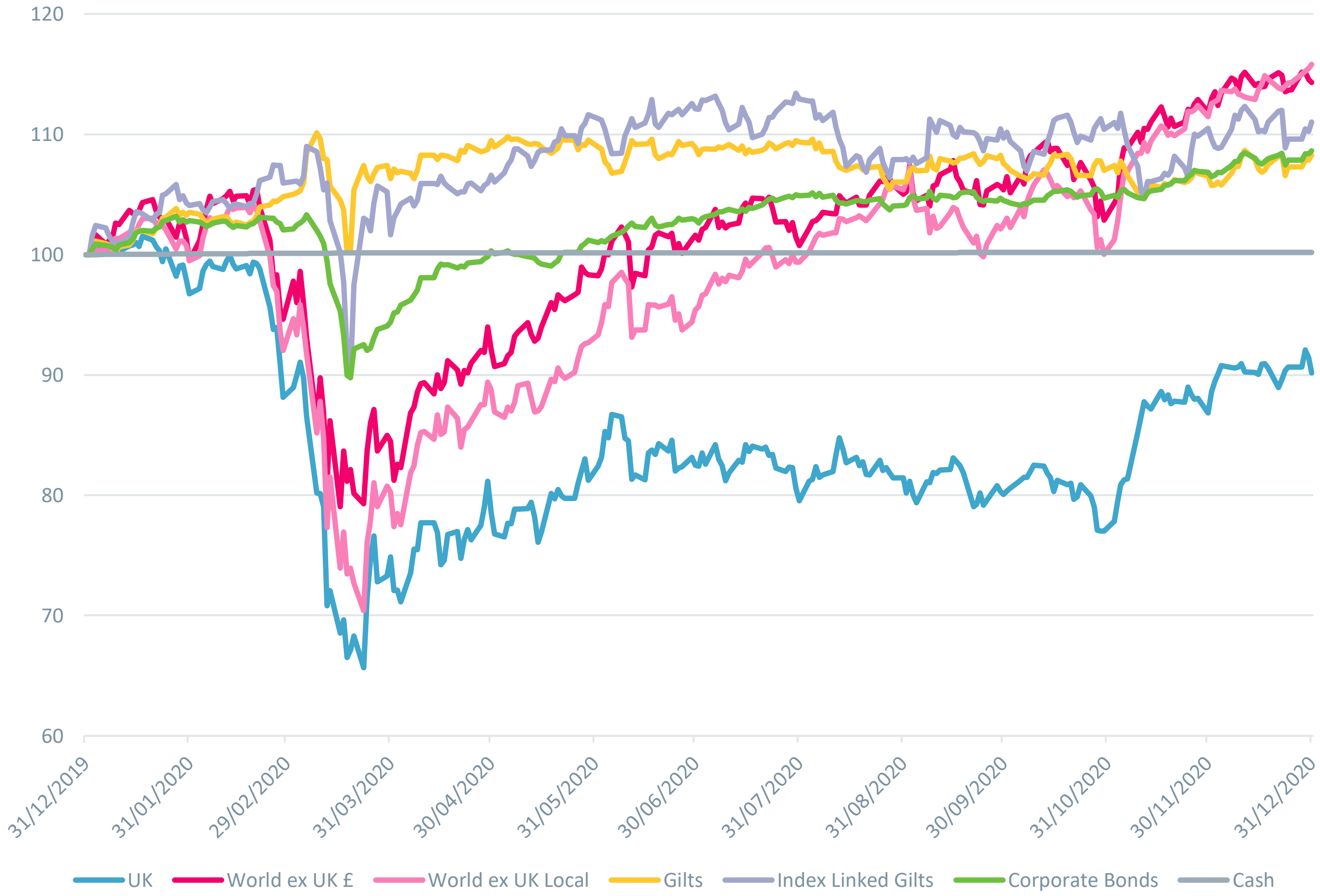
Renfrewshire Council

Meeting Papers – Markets Update

David Millar

9 June 2021

Markets in 2020



- Significant fall in equity (and corporate bond markets) in wake of Coronavirus crisis in quarter 1 2020.
- Equity markets down c30% but government bonds more resilient.
- Recovery since then, by end of the year only UK equities and property remained in negative territory for the year

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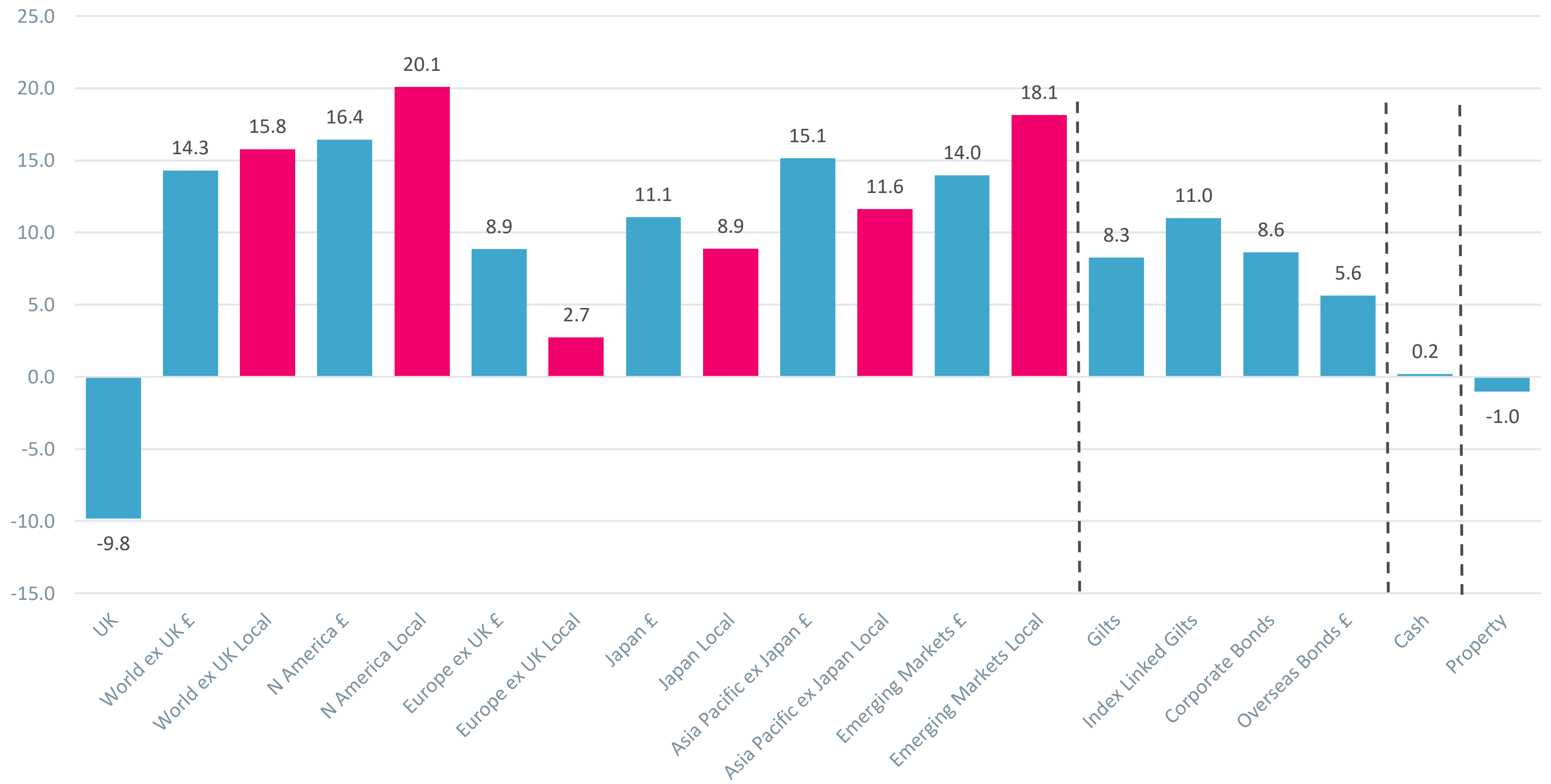
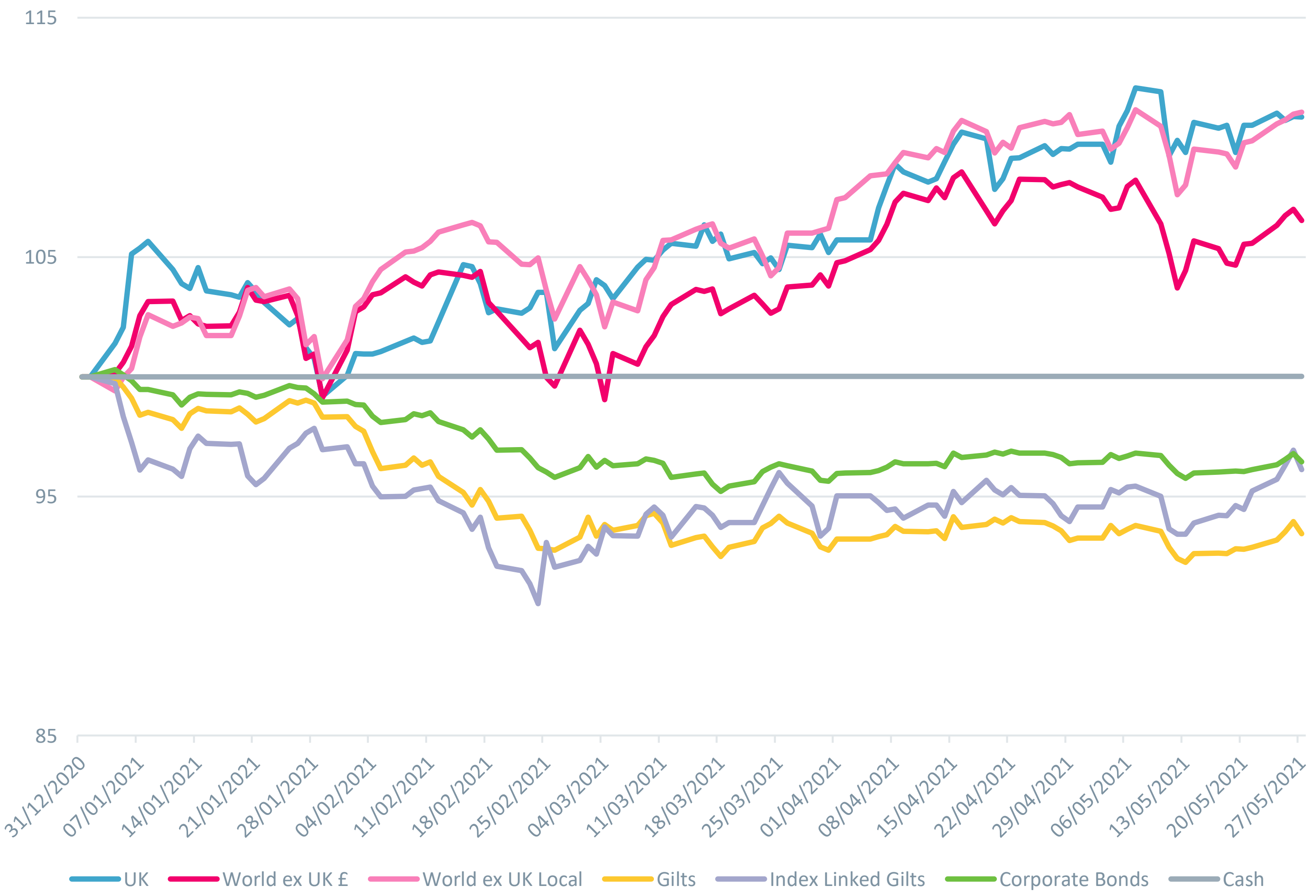
2020 – Calendar year returns

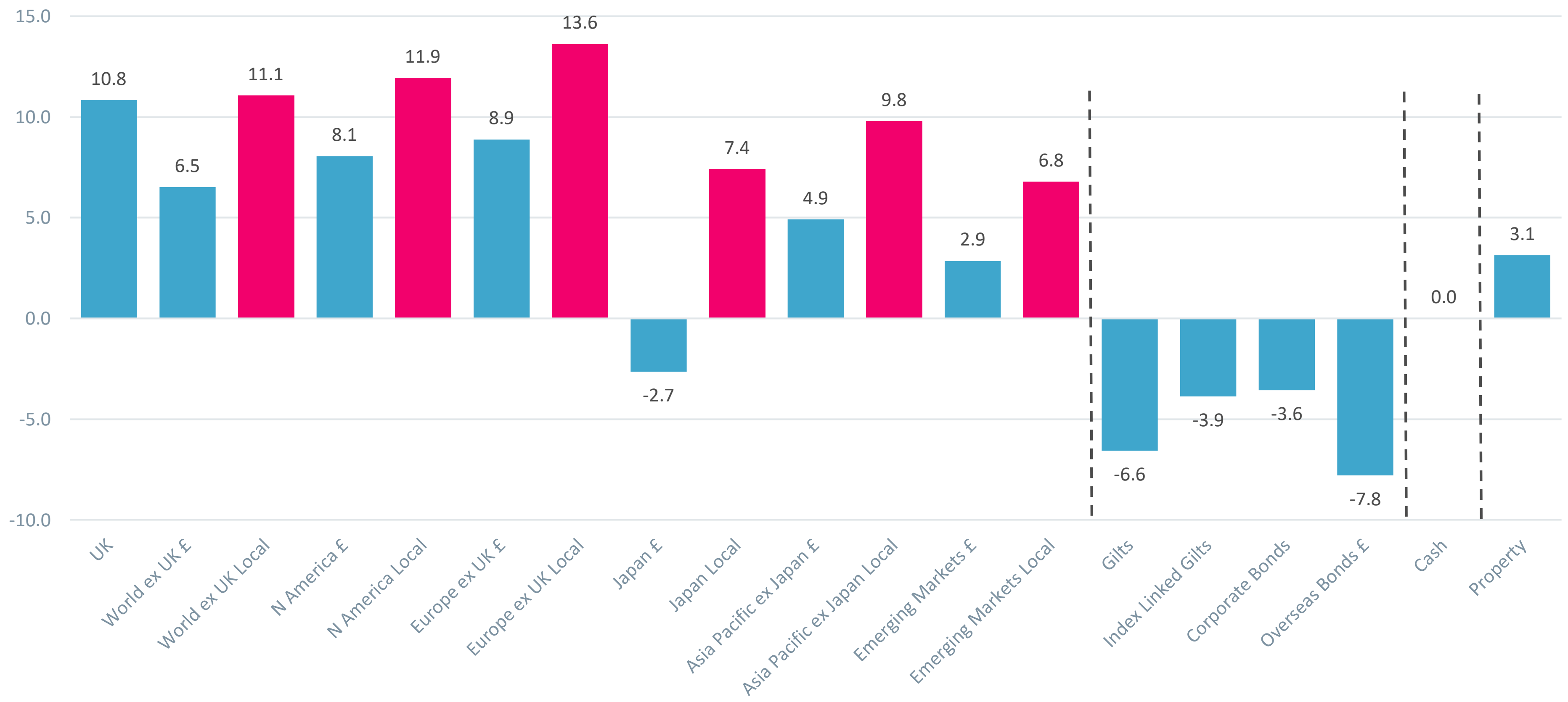


And into 2021



- Continued recovery in equity markets
- Sterling appreciation has meant the return from overseas equities has been weakened for sterling based investors (local currency overseas returns similar to UK equities)
- Bonds in contrast have fallen back in 2021

2021 – returns to 27th May



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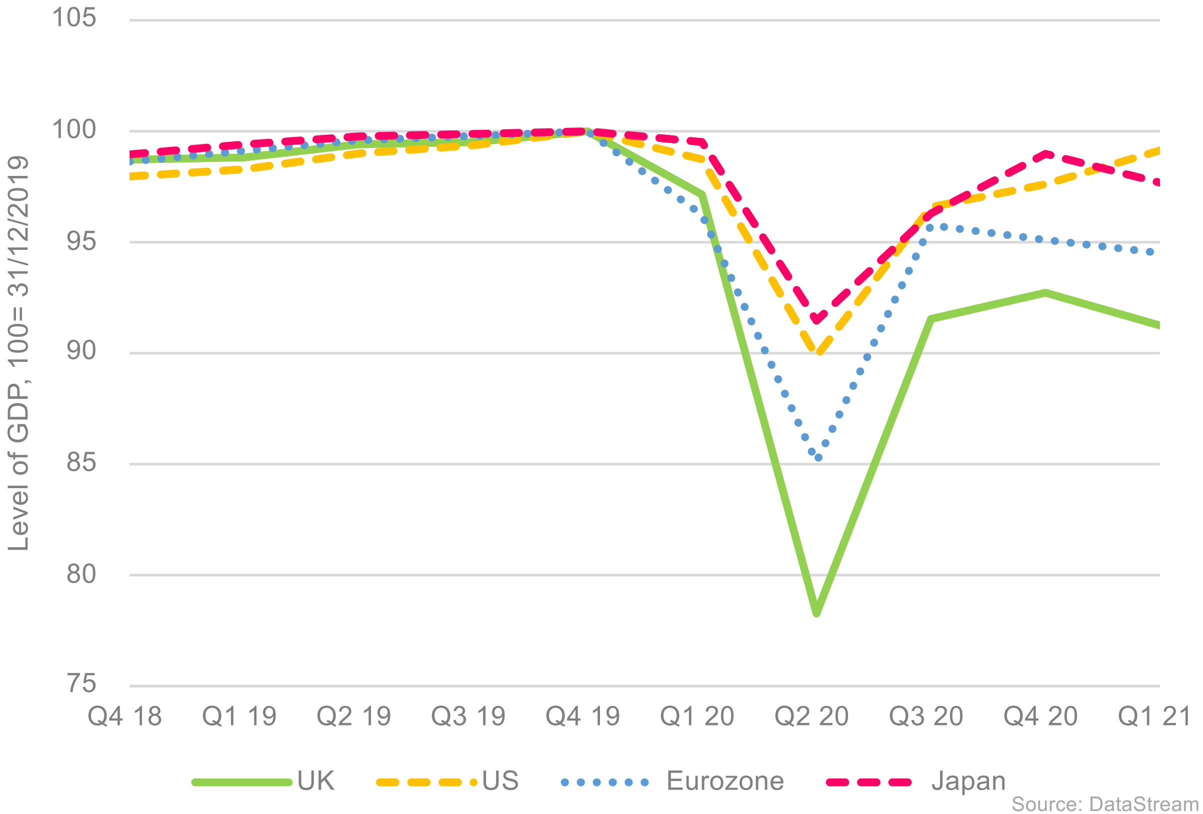
Economic Background

GDP Growth



Source: DataStream

Recent data confirm that although the quarterly pace of global growth slowed in Q1 2021 after a robust H2 2020, the hit to activity from tighter restrictions has been less than feared.

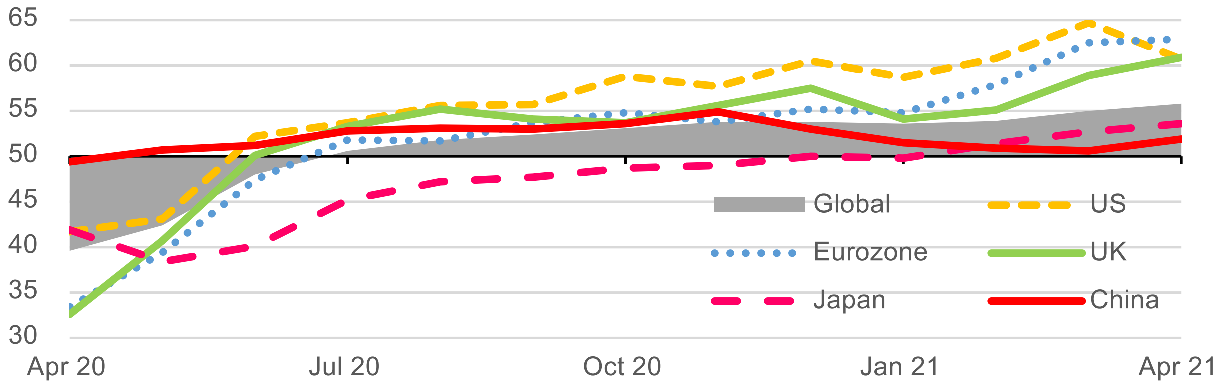
The US economy expanded 1.6% quarter-on-quarter, as household spending started to show the impact of fiscal stimulus, and the 0.6% contraction in the Eurozone was much smaller than economists had expected. Recent UK GDP figures have also outperformed expectations.

Amid accumulating evidence of the effectiveness of vaccines, the deployment of large US fiscal stimulus, and greater economic resilience to the latest waves of COVID-19, a marked acceleration in global GDP growth is expected from Q2 as restrictions begin to ease.

As a result, April's consensus forecasts for global growth in 2021 rose to 5.7%. Recent upgrades see output in many advanced economies, on both sides of the Atlantic, now reaching pre-pandemic levels by the end of the year, much faster than economists previously feared.

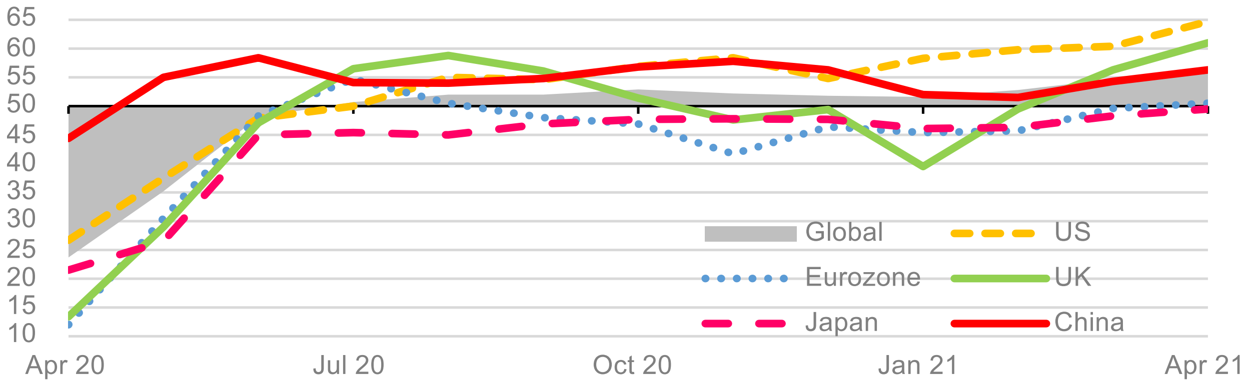
PMI

Manufacturing



Source: Bloomberg

Services



Source Bloomberg

Despite the ongoing rise in new COVID-19 cases, survey data for April suggest that the deterioration in the global health situation is not having an obviously adverse impact on the global economy.

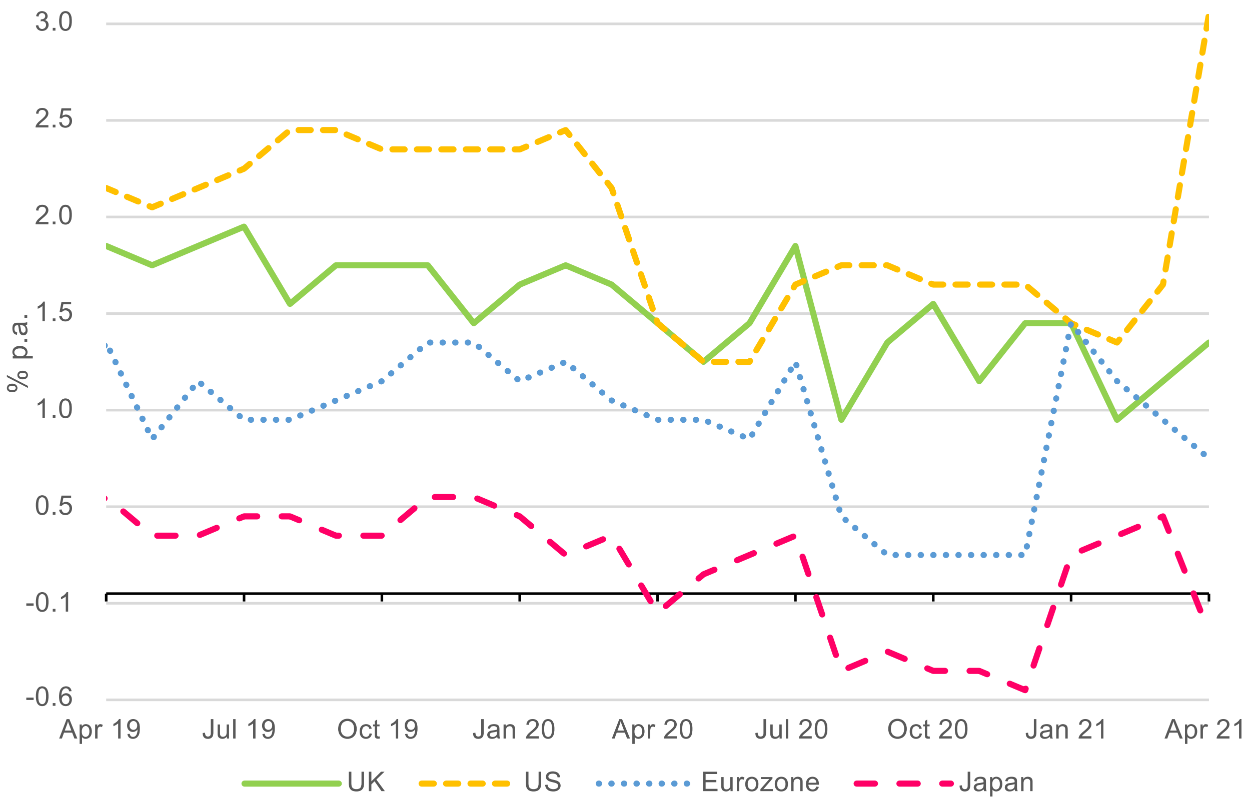
The eurozone composite PMI rose in April and, despite high infection numbers in parts of the region, the services component edged above the 50 “no-change” mark for the first time since August 2020.

Amid an easing of restrictions, the UK composite PMI rose to the highest level since 2013 and the US index rose to its highest ever reading.

However, input prices have continued to rise, lead-times are at a record long, there are shortages of critical basic materials, commodity prices are rising and there remains transport problems.

Employment at a global level remains well below pre-pandemic levels but gains have accelerated recently, particularly in the US and UK. US unemployment has fallen from April 2020’s 14.7% peak to 6.0% in March

Inflation



Source: DataStream

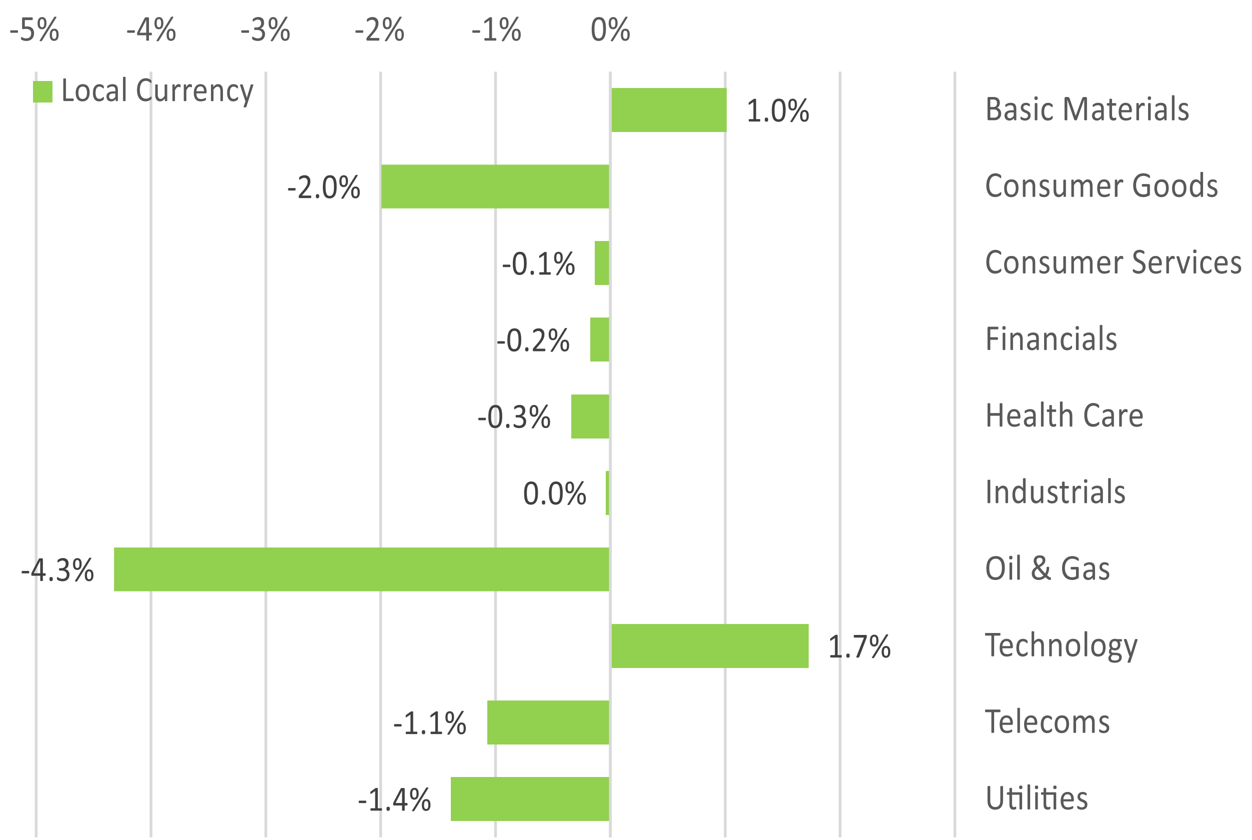
UK headline CPI inflation rose to 1.5% year-on-year in April, form 0.7% in March, due to increases in the price of utility, clothing and transport. Core inflation, which excludes volatile elements like alcohol and fuel, rose, to 1.3% year-on-year in April.

A pick-up in US inflation was expected, but April's 4.2% year-on-year increase in US headline CPI massively surprised to the upside, as did the increase in underlying core inflation. This is primarily a reflection of how far prices fell last year, with a strong rebound always likely, but manufacturers have been facing supply bottlenecks and consumer spending has surged as lockdown restrictions ease and stimulus cheques arrive. Job surveys also point to businesses finding it difficult to fill positions in some sectors. While policy makers appear confident that many of these factors will prove temporary, it will likely take towards the end of the year to ascertain how persistent inflationary pressures are.

Consensus forecasts are for a recovery in inflation in the UK in 2021 to be followed by a modest increase in 2022.

Equity Sectors

Relative performance of sectors to end April 201



Global Sector returns relative to FTSE All World Index 31 Mar 2021 to 30 Apr 2021. Source: Datastream

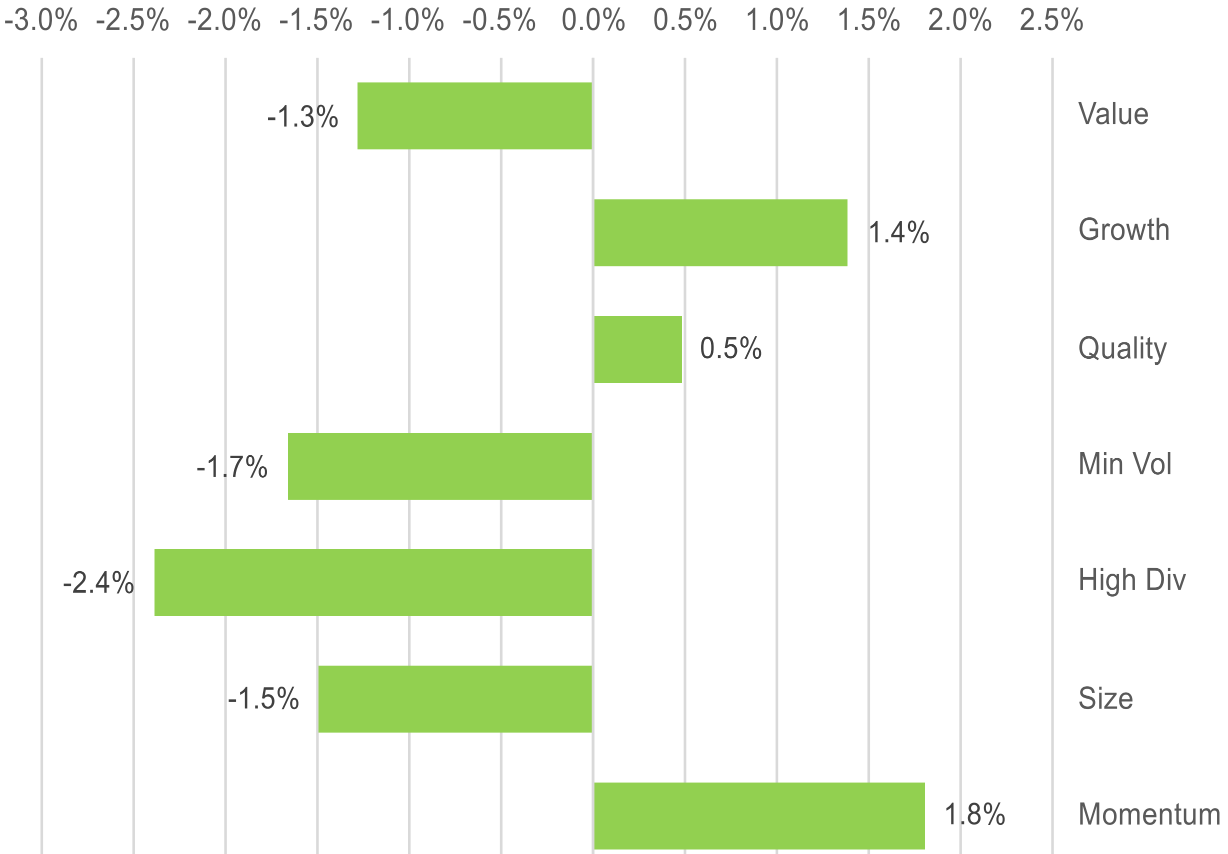
The rotation into more cyclical sectors seen in the first quarter paused in April as US treasury yields retraced a small part of their recent rise. Very strong earnings releases and an easing of pressure on valuations from rising sovereign bond yields helped technology to outperform (discounting back future earnings using a lower yield means an increased “present value” and makes the companies look more attractive).

The main laggards were oil & gas and consumer goods. Though oil prices have risen steadily this year, concerns over rising COVID-19 cases in India, the third largest importer of oil, weighed on oil major’s share prices.

Durable consumer goods orders disappointed in March – potentially highlighting the beginning of a shift in consumer spending from goods to services as economies re-open.

Equity Factors

Relative performance of sectors to end April 201



MSCI Global Factor indices returns relative to MSCI ACWI Index (Local Curr) 31 Mar 2021 to 30 Apr 2021. Source: Datastream

Since mid-March cyclical value stocks stopped outperforming growth and quality. Value underperformance is mainly due to underperformance in the energy sector.

Momentum and growth were the best performing factors in April given strong performance in technology stocks, especially the mega cap names listed in the US which reported strong earnings.

High dividend, minimum volatility and size factors also underperformed.

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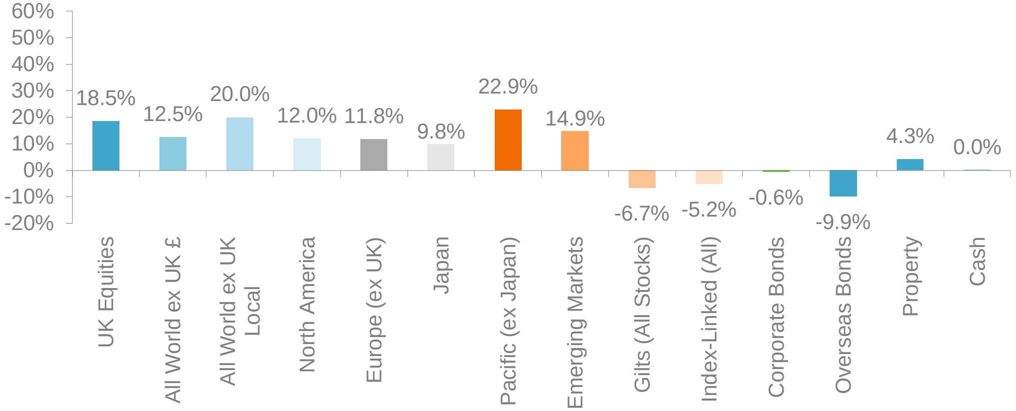
Thank you

Renfrewshire Council Common Good Funds

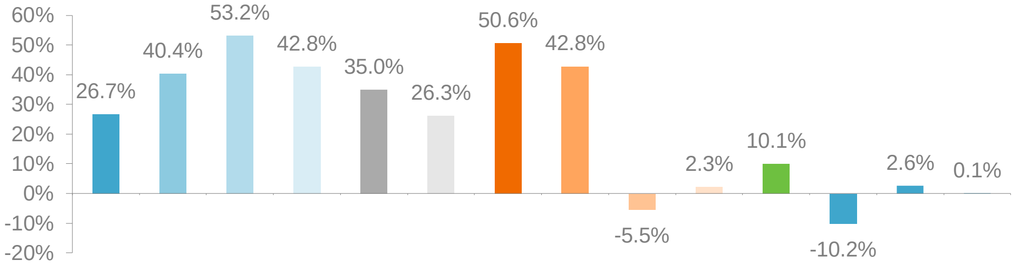
Review of Investment Managers' Performance for the 6 months to 31 March 2021

Market Background – 6 Months to 31 March 2021[1]

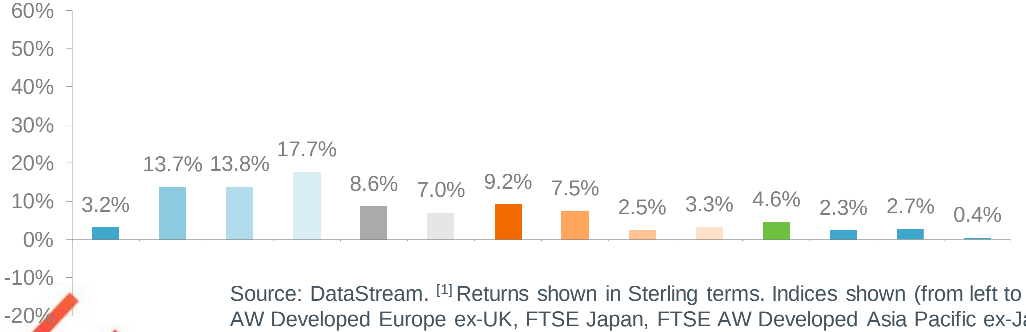
6 Months %



12 Months %



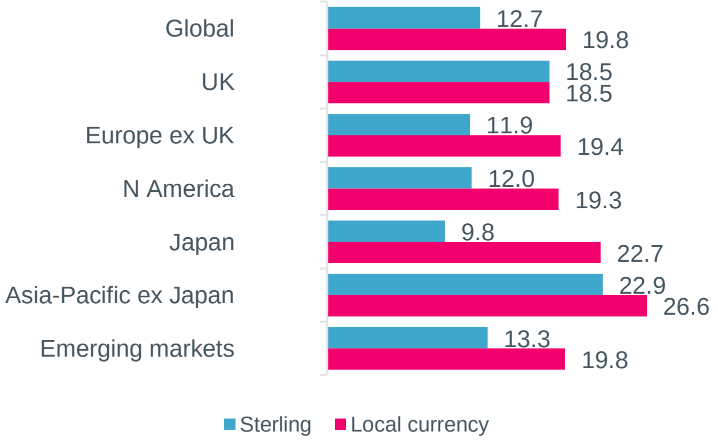
3 Years % p.a.



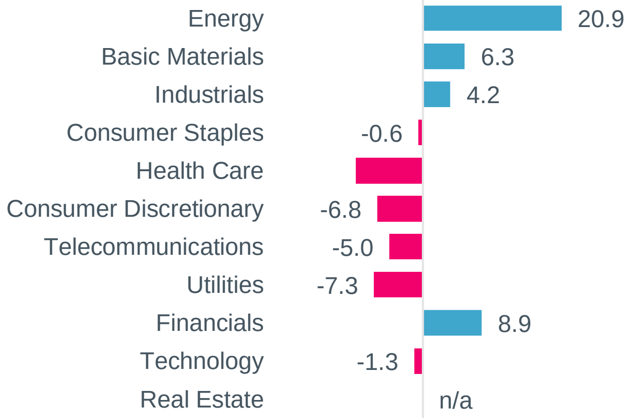
Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020. Recent data confirms that although the quarterly pace of global growth slowed in Q1 after a robust H2 2020, the hit to activity from tighter restrictions has been less than initially feared. Expectations of a re-acceleration of growth beyond Q2 seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March's global composite PMI rose to its highest level in over 6 years.

Global equity markets rose 20% in local currency terms as the improving economic outlook supported more cyclical sectors and rising sovereign bond yields benefitted financials: energy, financials, basic materials and industrials were the best performing sectors, in that order. The typically defensive healthcare, utilities, and telecoms sectors underperformed. Despite this, there was relatively little dispersion in regional returns: Japan and Asia ex-Japan outperformed, as currency weakness and a recovery in global trade supported these export-orientated indices. Despite a higher than average exposure to energy and financials, the UK market underperformed, perhaps weighed down by sterling strength given the high proportion of overseas earnings in the index. The US market also slighted underperformed given its typically more defensive earnings profile.

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.

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Valuation and Performance - Paisley Common Good Fund

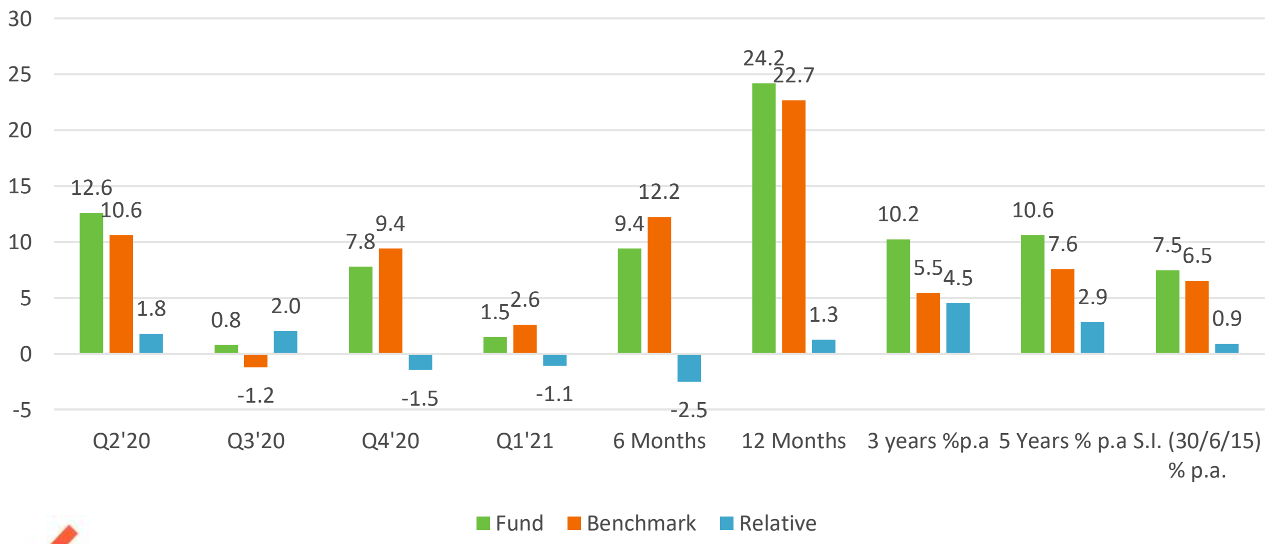
Valuation

	Value (£m)		Proportions		
	30/09/2020	31/03/2021	Actual %	Benchmark %	Difference
UK Equity	1.61	1.69	35.6%	60.0%	-24.4%
Overseas Equity	2.03	2.26	47.6%	20.0%	27.6%
Total Equity	3.64	3.96	83.2%	80.0%	3.2%
UK Government Bonds	0.24	0.25	5.2%	18.0%	-12.8%
UK Non Government Bonds	0.30	0.34	7.2%		7.2%
International Bonds	0.13	0.13	2.8%		2.8%
Total Bonds	0.68	0.72	15.2%	18.0%	-2.8%
Cash	0.08	0.08	1.6%	2.0%	-0.4%
Total	**4.40**	**4.75**			

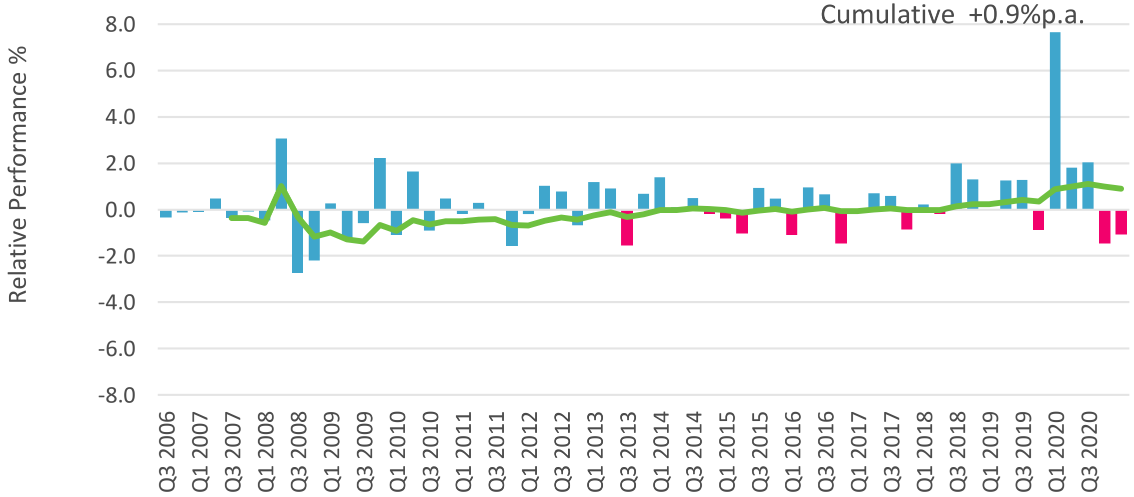
Income

(Standard Life) Estimated Annual Income	
30/09/2020	£135,532
31/12/2020	£135,734
31/03/2021	£142,603
Target	£113,000

Performance



Cumulative Performance



Valuation and Performance - Renfrew Common Good Fund

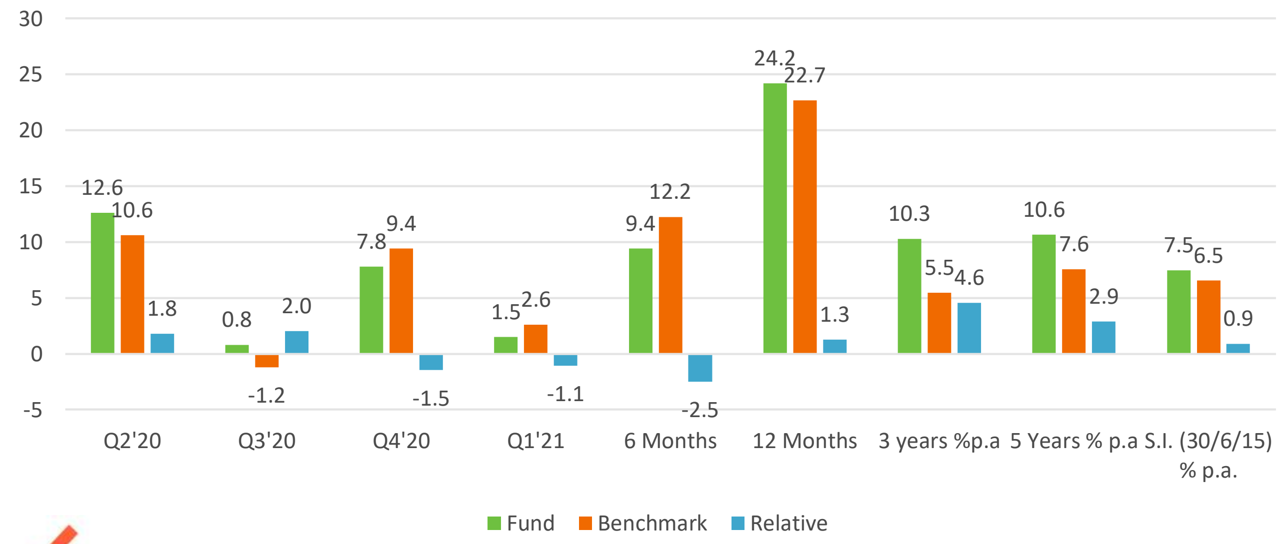
Valuation

	Value (£m)		Proportions		Difference
	30/09/2020	31/03/2021	Actual %	Benchmark %	
UK Equity	5.50	5.71	35.5%	60.0%	-24.5%
Overseas Equity	6.84	7.63	47.5%	20.0%	27.5%
Total Equity	12.34	13.34	83.0%	80.0%	3.0%
UK Government Bonds	0.83	0.83	5.2%	18.0%	-12.8%
UK Non Government Bonds	0.89	1.10	6.8%		6.8%
International Bonds	0.51	0.51	3.2%		3.2%
Total Bonds	2.23	2.44	15.2%	18.0%	-2.8%
Cash	0.31	0.29	1.8%	2.0%	-0.2%
Total	**14.87**	**16.07**			

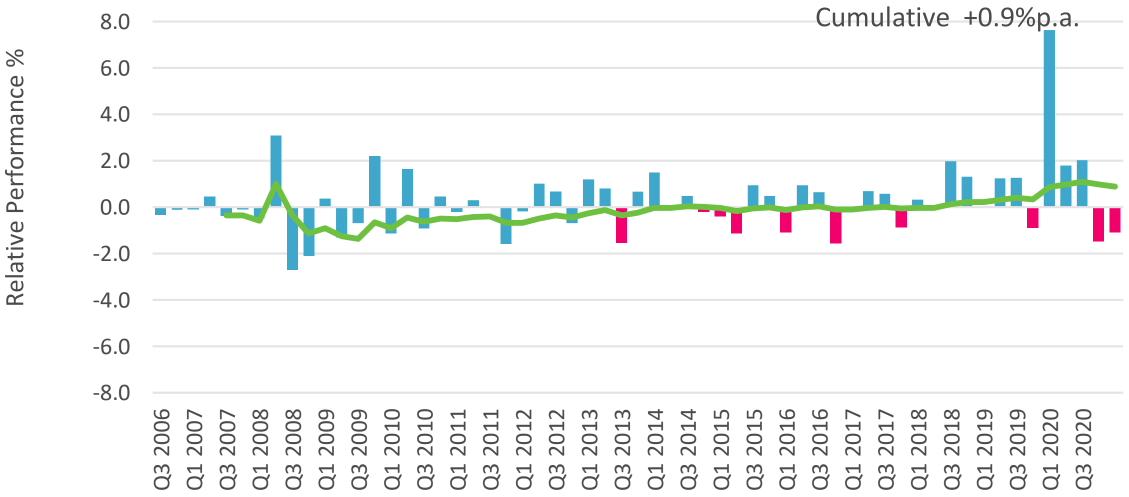
Income

(Standard Life) Estimated Annual Income	
30/09/2020	£457,019
31/12/2020	£457,547
31/03/2021	£480,796
Target	£380,000

Performance



Cumulative Performance



Commentary

Both the Paisley and Renfrew funds in aggregate, returned 9.4% over the 6 months to 31 March 2021; over the same period, the benchmark achieved a return of 12.2%. The performance over the period reflects the continuing equity market recovery although bond returns were negative, gilts in particularly providing negative returns and corporate bonds faring better albeit still modestly negative.

In Q4 2020, stock selection was a detractor from performance due the underweight position in cyclical stocks which performed strongly, such as miners and financials. Defensive stocks tended to underperform in Q4 and therefore defensive holdings such as utilities and renewables lagged the wider market. Healthcare was another sector which lagged the market – the fund’s overweight position was therefore detrimental. Within these sectors, the Fund’s holdings did continue to perform well, albeit not as well as more cyclical stocks.

Q1’2021 saw a continuation of this with cyclical stock outperformance. The below benchmark allocation to UK equities was also a negative factor relative to benchmark as UK equities outperformed overseas equities (especially as a stronger pound reduced the returns from overseas equities to UK investors). The allocation with bond holdings was a beneficial factor, as the overweight to corporate bonds (underweight gilts) was advantageous with corporate bonds outperforming gilts.

Over 12 months, fund returns are very positive in absolute terms (+24.2%) and significantly ahead of the benchmark return of 22.7% (reflecting the strong recovery in markets after the large falls in Q1’20). Returns over 3 and 5 years are also significantly ahead of benchmark and over 10% p.a. in absolute terms. 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 +6.5% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end of March 21, the allocation to equities (83.2%) was above the benchmark allocation (80%). The portfolio continues to be 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 significantly although this reversed over the last 6 months. The overweight to equities has been beneficial as equities have outperformed bonds.

The exposure to bonds was 15.2% at end March 2021 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2021 was 1.6% (just below the benchmark allocation). The manager favours corporate bonds which have outperformed gilts over the last 6 months, and this has benefitted performance relative to benchmark.

Appendices

Asset Allocation

Paisley Common Good Fund

30/09/2020	Benchmark	Fund	Difference
UK Equity	60.0%	36.7%	-23.3%
Overseas Equity	20.0%	46.0%	26.0%
Total Equity	80.0%	82.7%	2.7%
UK Government Bonds	18.0%	5.6%	-12.4%
UK Non Government Bonds		6.8%	6.8%
International Bonds		3.0%	3.0%
Total Bonds	18.0%	15.4%	-2.6%
Cash	2.0%	1.9%	-0.1%
Total	**100.0%**	**100.0%**	

31/03/2021	Benchmark	Fund	Difference
UK Equity	60.0%	35.6%	-23.3%
Overseas Equity	20.0%	47.6%	26.0%
Total Equity	80.0%	83.2%	2.7%
UK Government Bonds	18.0%	5.2%	-12.4%
UK Non Government Bonds		7.2%	6.8%
International Bonds		2.8%	3.0%
Total Bonds	18.0%	15.2%	-2.6%
Cash	2.0%	1.6%	-0.1%
Total	**100.0%**	**100.0%**	

Renfrew Common Good Fund

30/09/2020	Benchmark	Fund	Difference
UK Equity	60.0%	37.0%	-23.3%
Overseas Equity	20.0%	46.0%	26.0%
Total Equity	80.0%	83.0%	2.7%
UK Government Bonds	18.0%	5.6%	-12.4%
UK Non Government Bonds		6.0%	6.8%
International Bonds		3.4%	3.0%
Total Bonds	18.0%	15.0%	-2.6%
Cash	2.0%	2.1%	-0.1%
Total	**100.0%**	**100.0%**	

31/03/2021	Benchmark	Fund	Difference
UK Equity	60.0%	35.5%	-23.3%
Overseas Equity	20.0%	47.5%	26.0%
Total Equity	80.0%	83.0%	2.7%
UK Government Bonds	18.0%	5.2%	-12.4%
UK Non Government Bonds		6.8%	6.8%
International Bonds		3.2%	3.0%
Total Bonds	18.0%	15.2%	-2.6%
Cash	2.0%	1.8%	-0.1%
Total	**100.0%**	**100.0%**	

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 %	12 months %	6 months %	12 months %
UK Gov't Bonds	-7.4	-6.6	-5.6	-5.5	-0.4	-0.3	0.0	0.0
Corporate Bonds	0.9	-1.0	10.7	7.0	0.1	0.8	0.5	1.1
International Bonds	1.7	-9.6	15.3	-9.8	0.1	0.5	0.4	0.8
UK Equities	18.4	18.5	27.7	26.8	6.6	9.9	0.0	0.3
Overseas Equities	11.2	12.8	34.4	40.9	5.1	14.5	-0.7	-2.1
Total Assets	**9.4**	**12.2**	**24.2**	**22.7**				
			Estimated Contribution to relative returns from asset allocation				-3.0	1.5

Renfrew Common Good Fund

	6 months		12 months		Contribution to Absolute Return		Contribution to Relative Return	
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	12 months %	6 months %	12 months %
UK Gov't Bonds	-7.1	-6.6	-5.3	-5.5	-0.4	-0.3	0.0	0.0
Corporate Bonds	1.0	-1.0	10.8	7.0	0.1	0.7	0.5	1.0
International Bonds	1.8	-9.6	15.6	-9.8	0.1	0.5	0.4	0.9
UK Equities	18.4	18.5	27.7	26.8	6.6	9.9	0.0	0.3
Overseas Equities	11.2	12.8	34.4	40.9	5.1	14.5	-0.7	-2.1
Total Assets	**9.4**	**12.2**	**24.2**	**22.7**				
			Estimated Contribution to relative returns from asset allocation				-3.0	1.4

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.