

To: Investment Review Board

On: 23 November 2016

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 2016

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 30 September 2016. 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 (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 reports by Hymans Robertson LLP and the presentation by Standard Life Wealth Limited.
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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 7363*

Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the six months to 31 September 2016

Prepared by:
David Millar - Associate Consultant
Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP
November 2016



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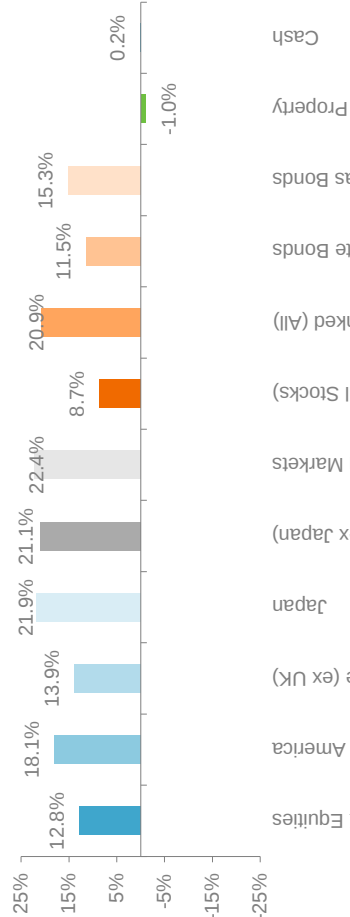
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in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

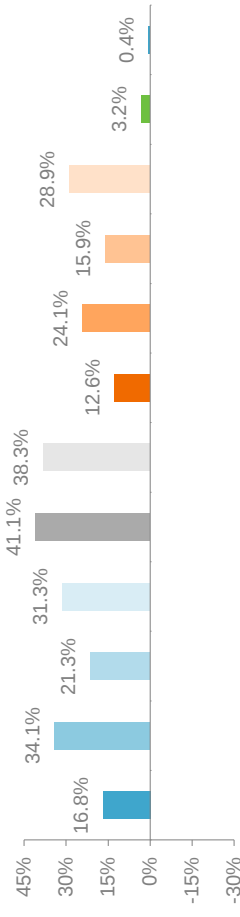
Hymans Robertson LLP, has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss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

Historic Returns for World Markets to 30 September 2016

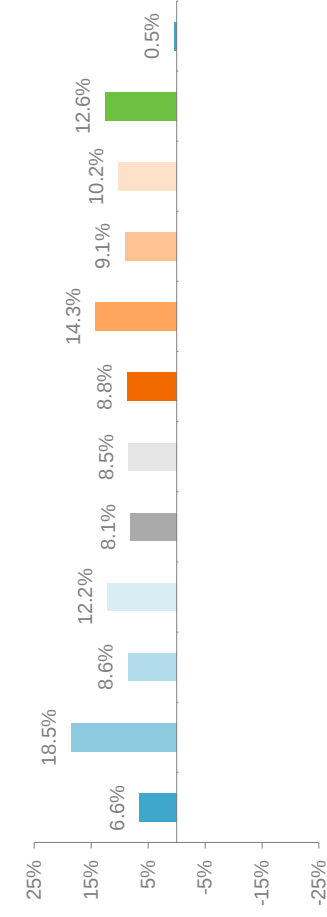
6 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comments

Economic data and business surveys suggested that global growth held up reasonably well during the six month period, despite the UK's surprise vote to leave the EU on 23 June. The immediate response of forecasters was to revise down GDP growth expectations for the UK and, to a lesser extent, the Eurozone, particularly for 2017.

The market's gloom about the economic outlook for the UK was shared by the Bank of England, which decided to cut interest rates from 0.5% p.a. to 0.25% p.a. in August and extend its quantitative easing (QE) programme. Responding to intensifying deflation, the Bank of Japan reaffirmed its 2% p.a. inflation target and beefed up its own QE programme. In the US, the Fed's vote to leave rates unchanged in September was not unanimous and, despite some signs of flagging economic momentum, investors think a US rate rise before the end of the year is a little more likely than not.

Global equity markets had traded in a narrow range in the first half of the period. They fell sharply in the few days following the Brexit vote but recovered quickly and pushed on to higher levels. The FTSE All World index returned 6.6% in local currency terms over the period. A post-referendum collapse in sterling raised the return to unhedged UK investors to 18% and, by boosting the value of the profits earned overseas by UK companies, propelled a 13.9% return from the FTSE100.

Key events during the 6 month period included;

- The "Leave" vote in the EU referendum and subsequent political fallout caught investors by surprise.
- The UK's manufacturing PMI plunged after the referendum, but recovered to reach its highest level since June 2014 in September.
- Oil prices rose from around \$40 to around \$50 a barrel over the period. A fall in Q3 was recouped at the end of September when OPEC reached an outline agreement to cut production.

Equities:

- The strongest sectors relative to the FTSE All World Index were Oil & Gas (+5.0%) and Basic Materials (+4.9%); the weakest were Telecommunications (-5.1%) and Consumer Services (-4.3%).
- In local currency terms, the UK and Emerging Market equity markets were the strongest performers during the period, while Japan was the worst.

Bonds and currencies

- UK gilts performed strongly in the wake of the "Brexit" vote. 10-year yields plunged close to 0.6% p.a. in the middle of August.
- UK investment-grade credit spreads tightened over the period, narrowing to their lowest levels for over a year.
- Sterling fell sharply against all major currencies, finishing close to its lowest trade-weighted level since Q1 2009.

Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Paisley Common Good Fund: Portfolio Summary

Valuation Summary

	Values (£m)		Actual Proportion %	Target Proportion %	Difference	
	31/03/2016	30/09/2016			%	
UK Equities	1.633	1.753	45.9	60.0	-14.1	
International Equities	1.177	1.348	35.3	20.0	15.3	
UK Bonds	0.441	0.513	13.4	18.0	-4.6	
International Bonds	0.114	0.120	3.1	0.0	3.1	
Property	0.000	0.000	0.0	0.0	0.0	
Cash/Other	0.039	0.084	2.2	2.0	0.2	
Total	3.404	3.818	100.0%	100.0%		

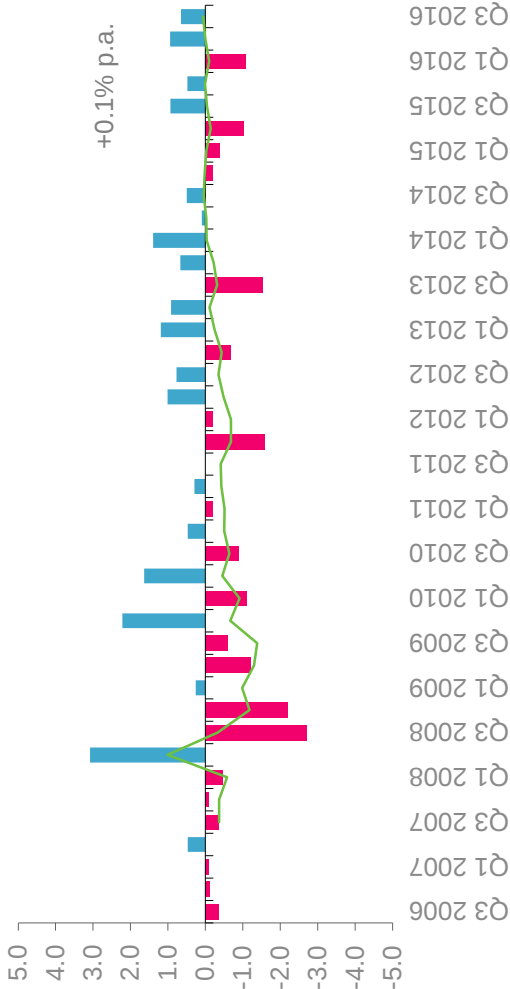
(Standard Life) Estimated Annual Income	31/03/2016	30/06/2016	30/09/2016	Target
	£132,171	£135,043	£136,856	£102,700

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

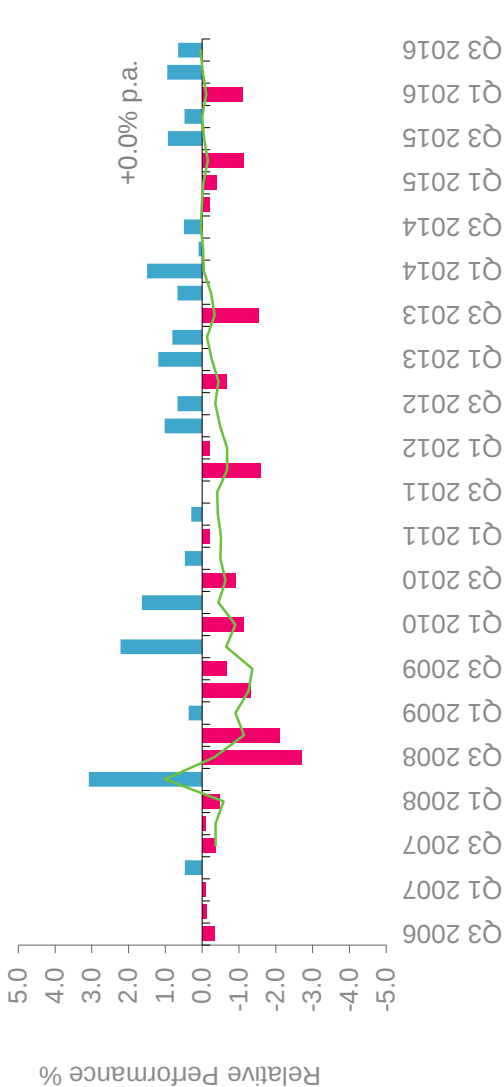
	Values (£m)		Actual Proportion %	Target Proportion %	Difference	
	31/03/2016	30/09/2016			%	
UK Equities	5.495	5.927	46.0	60.0	-14.0	
International Equities	3.992	4.566	35.4	20.0		15.4
UK Bonds	1.494	1.748	13.6	18.0	-4.4	
International Bonds	0.379	0.399	3.1	0.0		3.1
Property	0.000	0.000	0.0	0.0		0.0
Cash/Other	0.120	0.256	2.0	2.0		0.0
Total	11.480	12.896	100.0%	100.0%		
		£445,136		£455,005		£ 461,209.00
						£346,000

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

Paisley Common Good Fund: Allocation and Performance

Commentary on Paisley Common Good Fund

The Fund, in aggregate, returned 14.7% between end March 2016 (the effective date of the immediately preceding report) and end September 2016; over the same period, the benchmark achieved a return of 12.9%. The manager's equity and gilt holdings outperformed.

Since the inception of the mandate, on 1 July 2006, the Fund return of +7.0% p.a. broadly matched the benchmark return of +7.0% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end September 2016, the allocation to equities (81.2%) 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 16.5% at end September 2016 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2016 was 2.2% (0.2% above the benchmark allocation) compared with 1.2% at the end of March 2016.

Over the 6 month period, equities performed strongly despite a decline immediately following the result of the EU referendum and provided the best asset class returns. Sterling depreciation has been a notable feature of 2016 and this was further evidenced by the sharp decline in sterling immediately after the referendum result. Sterling depreciation had the effect of enhancing returns from overseas equities for UK investors. The manager's overweight position to overseas equities has been beneficial. However, UK equity performance has also been very strong and the UK equity portfolio outperformed its benchmark significantly.

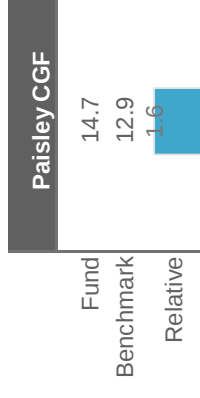
The Fund's bond benchmark component (15%) is measured against the UK gilt index. The portfolio has exposure to non UK gilts (corporate and overseas bonds). In the aftermath of the EU referendum the "flight to safety" to gilts pushed gilt prices up and although corporate bonds also saw positive returns, these were lower than gilts. The corporate bond exposure will have been a modest drag on performance against the all gilts benchmark. The manager's positioning, favouring longer dated gilts, was beneficial as longer dated gilts outperformed their shorter dated counterparts.

Questions for the investment manager;

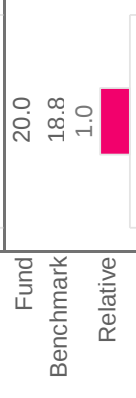
With strong returns across a wide range of asset classes, what areas of the market now appear overvalued and where is the manager seeking out value?

Performance Summary

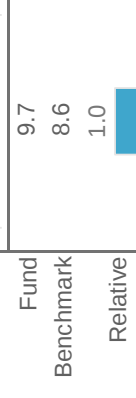
6 Months (%)



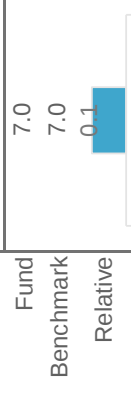
12 Months (%)



3 years (%)



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



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Renfrew Common Good Fund: Allocation and Performance

Commentary on Renfrew Common Good Fund

The Fund, in aggregate, returned 14.7% between end March 2016 (the effective date of the immediately preceding report) and end September 2016; over the same period, the benchmark achieved a return of 12.9%. The manager's equity and gilt holdings outperformed.

Since the inception of the mandate, on 1 July 2006, the Fund return of +7.0% p.a. broadly matched the benchmark return of +7.0% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end September 2016, the allocation to equities (81.4%) 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 16.7% at end September 2016 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2016 was 2.0% (in line with the benchmark allocation) compared with 1.2% at the end of March 2016.

Over the 6 month period, equities performed strongly despite a decline immediately following the result of the EU referendum and provided the best asset class returns. Sterling depreciation has been a notable feature of 2016 and this was further evidenced by the sharp decline in sterling immediately after the referendum result. Sterling depreciation had the effect of enhancing returns from overseas equities for UK investors. The manager's overweight position to overseas equities has been beneficial. However, UK equity performance has also been very strong and the UK equity portfolio outperformed its benchmark significantly.

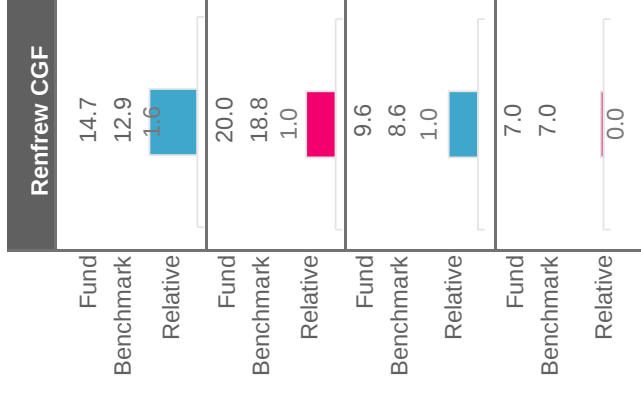
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Questions for the investment manager;

With strong returns across a wide range of asset classes, what areas of the market now appear overvalued and where is the manager seeking out value?

Performance Summary

6 Months (%)



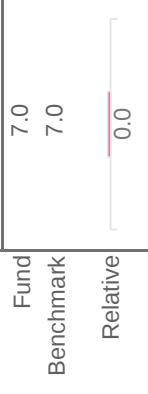
12 Months (%)



3 years (%)



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



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Appendix 1: Asset Allocation

Paisley Common Good Fund

Asset Allocation

31 March 2016

Asset Allocation

30 September 2016

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	48.0%	-12.0%
International Equities	20.0%	34.6%	14.6%
UK Bonds	18.0%	13.0%	-5.0%
International Bonds	0.0%	3.3%	3.3%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	1.2%	-0.8%
Total	100.0%	100.0%	0.0%

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	45.9%	-14.1%
International Equities	20.0%	35.3%	15.3%
UK Bonds	18.0%	13.4%	-4.6%
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

31 March 2016

30 September 2016

Asset Allocation

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	47.9%	-12.1%
International Equities	20.0%	34.8%	14.8%
UK Bonds	18.0%	13.0%	-5.0%
International Bonds	0.0%	3.3%	3.3%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	1.0%	-1.0%
Total	100.0%	100.0%	0.0%

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	46.0%	-14.0%
International Equities	20.0%	35.4%	15.4%
UK Bonds	18.0%	13.6%	-4.4%
International Bonds	0.0%	3.1%	3.1%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.0%	0.0%
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 6 months %	Contribution to Relative Return 6 months %
	Fund %	Benchmark %	Fund %	Benchmark %		
UK Gov't Bonds	11.7	8.6	16.6	12.6	0.6	0.1
Corporate Bonds	10.0	10.5	13.8	14.3	0.8	0.1
International Bonds	8.0	6.0	2.1	17.9	0.3	0.1
UK Equities	16.4	12.9	22.2	16.9	7.7	1.5
Overseas Equities	17.1	18.0	24.3	32.3	5.7	-0.3
Total Assets	14.7	12.9	20.0	18.8		

Renfrew Common Good Fund

	6 months		12 months		Contribution to Absolute Return 6 months %	Contribution to Relative Return 6 months %
	Fund %	Benchmark %	Fund %	Benchmark %		
UK Gov't Bonds	11.7	8.6	16.6	12.6	0.6	0.1
Corporate Bonds	10.7	10.5	14.8	14.3	0.8	0.1
International Bonds	8.0	6.0	2.1	17.9	0.3	0.1
UK Equities	16.4	12.9	22.2	16.9	7.7	1.5
Overseas Equities	17.1	18.0	24.3	32.3	5.7	-0.3
Total Assets	14.7	12.9	20.0	18.8		



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.