

To: Investment Review Board

On: 25 November 2015

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 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 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 2015. Hymans Robertson LLP will be represented at the meeting by Allison Galbraith (Investment Consultant), who will present her report to Members, and by David Millar (Senior Investment Analyst). The investment managers will not be present during this part of the meeting.
- 1.3 Mike Connor (Private Client Head, Standard Life Wealth Limited) and John Gordon (Regulatory Controls Manager, Standard Life Wealth Limited) will then join the meeting. Mr Connor 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 reports by 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 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: *Richard Conway, Ext 7377*

Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the six months to 30 September 2015

Prepared by:

Bruce A Lindsay - Senior Investment Consultant

Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP

November 2015



Contents

	Page
 Markets	
Historic Returns for World Markets to 30 September 2015	3
 Portfolio Summary	
Paisley Common Good Funds	4
Renfrew Common Good Funds	5
 Fund Specific Asset Allocation and Performance	
Paisley Common Good Funds	6
Renfrew Common Good Funds	7
 Appendices	
Asset Allocation	8
Performance by Asset Class	9
Explanation of Performance Calculations	10

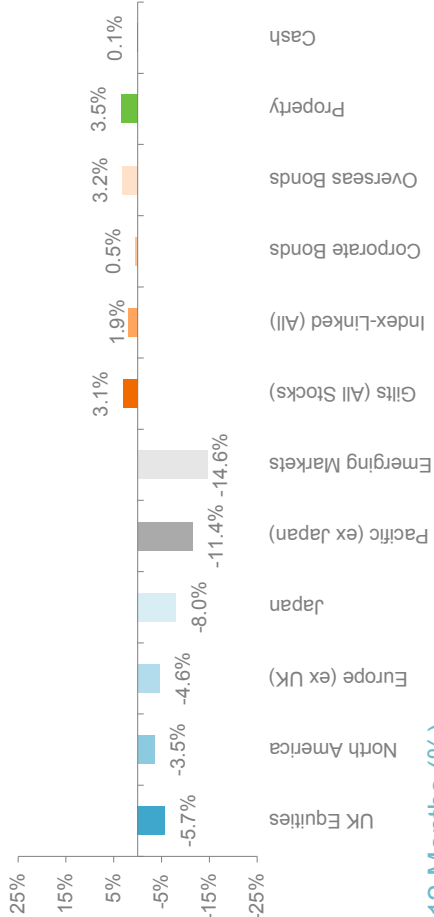
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile 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 30 September 2015

Market Comments

3 Months (%)



Global equity markets recorded their worst three month returns in four years. In the UK the FTSE All Share index fell by 5.7%; in the US, the S&P 500 index fell by 2.9%. August was a particularly difficult month, with global equities falling by more than 5% and government bonds offering little in the way of a safe haven.

The economic slowdown in China dominated the headlines during the quarter, with the country's economy growing at its slowest rate in over six years. In August, the benchmark interest rate was cut for the fifth time since November 2014.

An increase in short-term interest rates in the US had been widely anticipated at the start of the quarter, but developments in China shifted expectations. Many commentators are now anticipating that the first US rate rise will be pushed into 2016. However, the US economy continued to be robust, with falling unemployment and upward revisions to growth forecasts. The chairman of the Federal Reserve suggested, at the end of the quarter, that a US rate rise was still likely before the end of 2015.

Key events during the quarter included;

Global Economy

- Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
- Headline inflation in the US, Eurozone and UK remained close to zero;
- The VIX volatility index spiked as equity markets collapsed, peaking at more than double its historic average since 1990;
- Oil prices slid back to their lows of early 2015, dipping under \$50 per barrel;
- Commodity prices suffered their biggest quarterly decline since 2008.

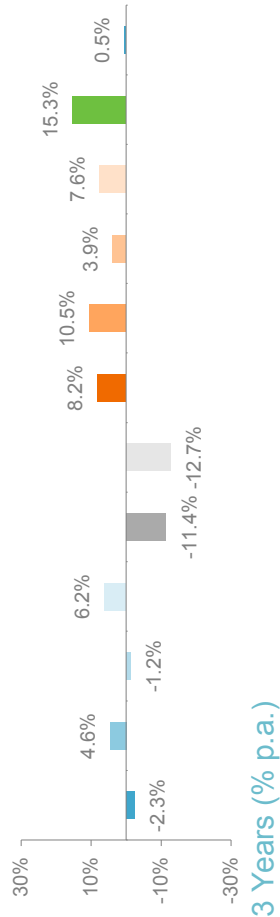
Equities

- The strongest sectors relative to the FTSE All World Index were Utilities (+7.6%) and Consumer Services (+5.1%); the weakest were Basic Materials (-11.4%) and Oil & Gas (-9.9%);
- Emerging market equities struggled; local currency weakness compounded the falls for UK investors.

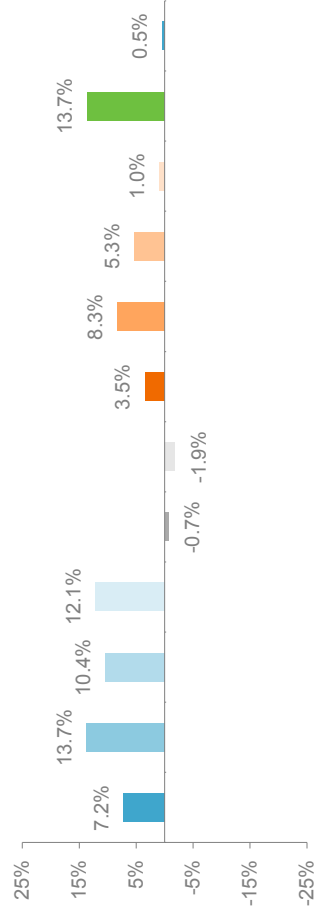
Bonds

- Sterling fell against the Dollar, Euro and Yen, largely reversing gains made during the preceding quarter;
- UK gilt yields fell (prices rose), with nominal yields falling further than real yields.

12 Months (%)



3 Years (% p.a.)



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

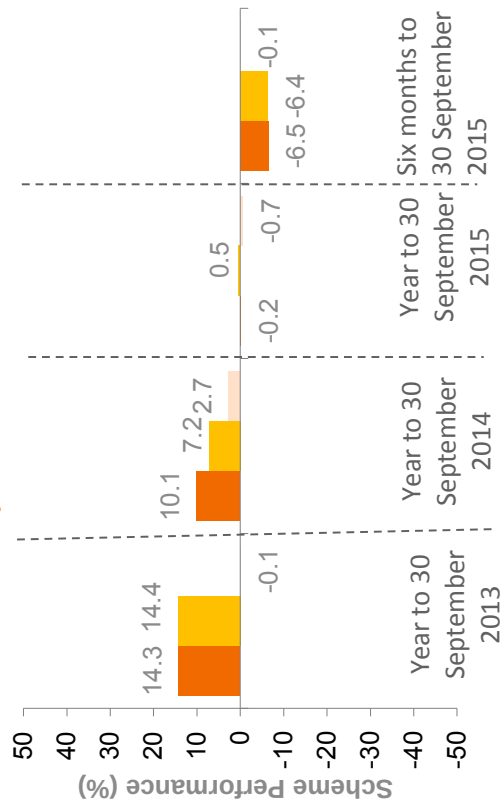
Paisley Common Good Fund: Portfolio Summary

Valuation Summary

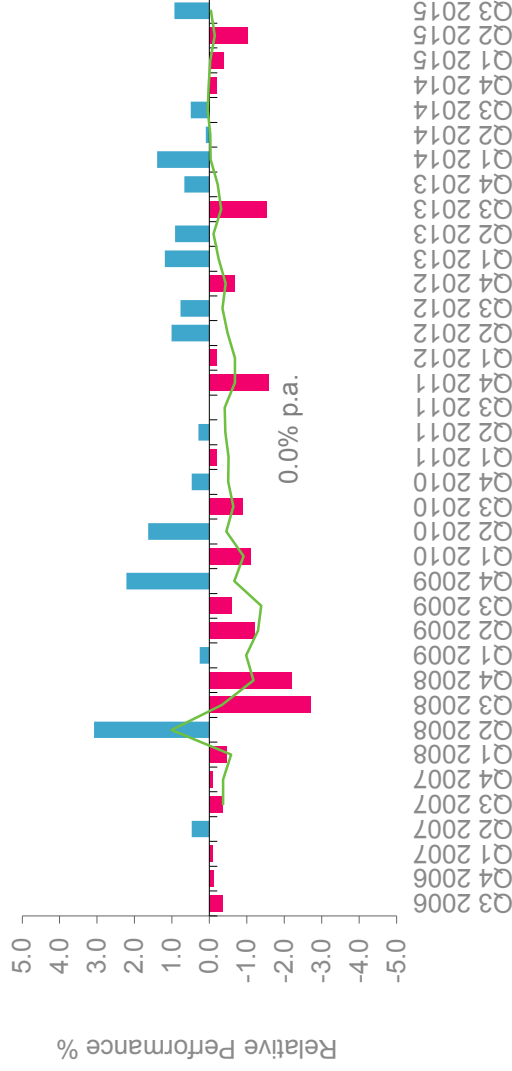
	Values (£m)		Actual Proportion %	Target Proportion %	Difference		(Standard Life) Estimated Annual Income	Target
	31/03/2015	30/09/2015			%		30/09/2015	
UK Equities	1.804	1.560	47.1	60.0	-12.9			
International Equities	1.110	1.094	33.0	20.0	13.0			
UK Bonds	0.573	0.536	16.2	18.0	-1.8			
International Bonds	0.046	0.040	1.2	0.0	1.2			
Property	0.000	0.000	0.0	0.0	0.0			
Cash/Other	0.094	0.081	2.5	2.0	0.5			
Total	3.626	3.311	100.0%	100.0%			£130,067	£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

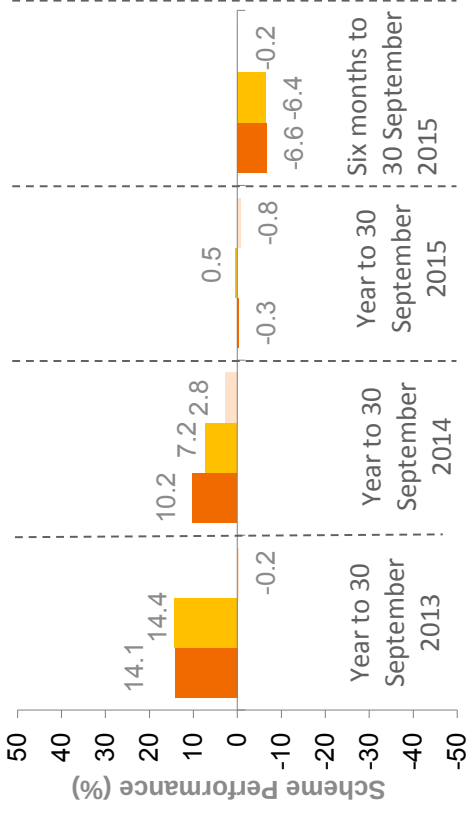
Renfrew Common Good Fund: Portfolio Summary

Valuation Summary

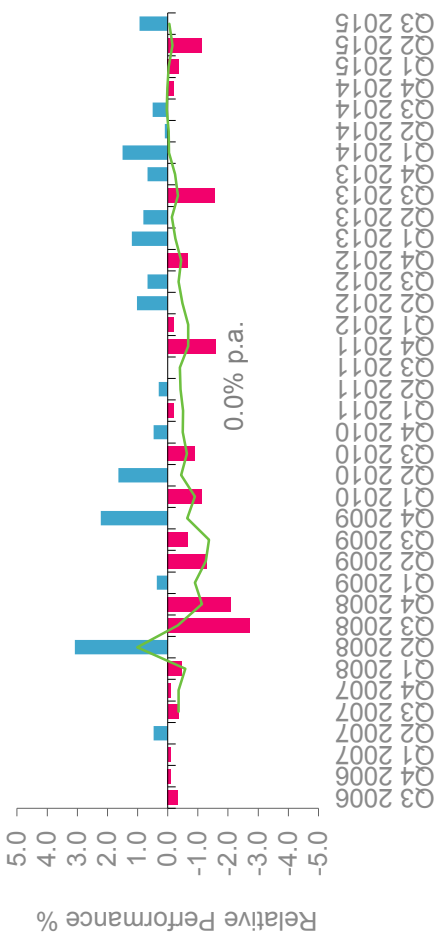
	Values (£m)		Actual Proportion %	Target Proportion %	Difference	
	31/03/2015	30/09/2015			%	
UK Equities	5.879	5.240	47.0	60.0	-13.0	
International Equities	3.943	3.704	33.2	20.0	13.2	
UK Bonds	1.938	1.807	16.2	18.0	-1.8	
International Bonds	0.157	0.135	1.2	0.0	1.2	
Property	0.000	0.000	0.0	0.0	0.0	
Cash/Other	0.313	0.272	2.4	2.0	0.4	
Total	12.230	11.158	100.0%	100.0%		
	£439,801	£456,178				£ 442,878.00
						£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 -6.5% between end March 2015 (the effective date of the immediately preceding report) and end September 2015; over the same period, the benchmark achieved a return of -6.4%.

Since the inception of the mandate, on 1 July 2006, the Fund return, +5.7% p.a., is marginally below that of the benchmark, +5.8% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end September 2015, the allocation to equities (80.1%) 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 17.4% at end September 2015 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2015 was 2.5% (0.5% above the benchmark allocation) compared with 2.6% at the end of March 2015.

Although falling in absolute terms over the six months to end September 2015, both UK and overseas equities outperformed their respective benchmarks (by +1.2% and +0.8% respectively). The overweight position in overseas equities, which underperformed their UK counterparts in Sterling terms, will have had a detrimental impact on performance at aggregate level. Over the same period, corporate bonds will have had a detrimental impact on aggregate performance as they underperformed their benchmark.

As stated in our report for the quarter to end March 2015, we are unable to comment in detail on the returns achieved by equities as the Investment Manager does not provide sufficient information. We have asked the Investment Manager to provide an attribution analysis that allows us to understand more about performance and await a response.

Questions for the investment manager;

Which equity sectors and stocks contributed/detracted most to/from performance over the period?

Which regional equity markets contributed/detracted most to/from performance over the period?

What is your policy regarding investment in Far East and emerging markets? Opportunity, or an area to avoid?

What is the reason for the significant underperformance of international bonds during the quarter to end September 2015?

How are you positioning the fixed interest element of the portfolio in the context of potential rises in short-term interest rates in the UK and US?

Performance Summary

6 Months (%)

Fund	-6.5
Benchmark	-6.4
Relative	-0.1%

12 Months (%)

Fund	-0.2
Benchmark	0.5
Relative	-0.7%

3 years (%)

Fund	7.9
Benchmark	7.2
Relative	0.6%

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

Fund	5.7
Benchmark	5.8
Relative	0.0%



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 -6.6% between end March 2015 (the effective date of the immediately preceding report) and end September 2015; over the same period, the benchmark achieved a return of -6.4%.

Since the inception of the mandate, on 1 July 2006, the Fund return, +5.7% p.a., is marginally below that of the benchmark, +5.8% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end September 2015, the allocation to equities (80.2%) 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 17.4% at end September 2015 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2015 was 2.4% (0.4% above the benchmark allocation) compared with 2.6% at the end of March 2015.

Although falling in absolute terms over the six months to end September 2015, both UK and overseas equities outperformed their respective benchmarks (by +1.2% and +0.8% respectively). The overweight position in overseas equities, which underperformed their UK counterparts in Sterling terms, will have had a detrimental impact on performance at aggregate level. Over the same period, corporate bonds will have had a detrimental impact on aggregate performance as they underperformed their benchmark.

As stated in our report for the quarter to end March 2015, we are unable to comment in detail on the returns achieved by equities as the Investment Manager does not provide sufficient information. We have asked the Investment Manager to provide an attribution analysis that allows us to understand more about performance and await a response.

Questions for the investment manager;

Which equity sectors and stocks contributed/detracted most to/from performance over the period?

Which regional equity markets contributed/detracted most to/from performance over the period?

What is your policy regarding investment in Far East and emerging markets? Opportunity, or an area to avoid?

What is the reason for the significant underperformance of international bonds during the quarter to end September 2015?

How are you positioning the fixed interest element of the portfolio in the context of potential rises in short-term interest rates in the UK and US?

Performance Summary

6 Months (%)

Renfrew CGF	
Fund	-6.6
Benchmark	-6.4
Relative	-0.2%
Fund	-0.3
Benchmark	0.5
Relative	-0.8%
Fund	7.8
Benchmark	7.2
Relative	0.6%
Fund	5.7
Benchmark	5.8
Relative	0.0%

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 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%

Asset Allocation 30 September 2015

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	47.1%	-12.9%
International Equities	20.0%	33.0%	13.0%
UK Bonds	18.0%	16.2%	-1.8%
International Bonds	0.0%	1.2%	1.2%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.5%	0.5%
Total	100.0%	100.0%	0.0%

Renfrew Common Good Fund

Asset Allocation 31 March 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%

Asset Allocation 30 September 2015

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	47.0%	-13.0%
International Equities	20.0%	33.2%	13.2%
UK Bonds	18.0%	16.2%	-1.8%
International Bonds	0.0%	1.2%	1.2%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.4%	0.4%
Total	100.0%	100.0%	0.0%

Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Appendix 2: Performance by Asset Class

Renfrew Common Good Fund

	3 months		12 months	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Bonds	4.1	3.1	12.6	8.2
International Bonds	-6.0	5.9	-2.4	4.5
UK Equities	-3.9	-5.7	-0.2	-2.3
Overseas Equities	-4.2	-5.3	-3.0	1.3
Total Assets	-3.0	-3.9	-0.3	0.4

Paisley Common Good Fund

	3 months		12 months	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Bonds	4.0	3.1	12.9	8.2
International Bonds	-6.0	5.9	-2.5	4.5
UK Equities	-3.9	-5.7	-0.2	-2.3
Overseas Equities	-4.2	-5.3	-2.9	1.3
Total Assets	-3.0	-3.9	-0.2	0.4



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.