

Notice of Meeting and Agenda Investment Review Board

Date	Time	Venue
Wednesday, 16 November 2022	11:00	Remotely by MS Teams,

MARK CONAGHAN
Head of Corporate Governance

Membership

Councillor John Shaw (Convener): Councillor Iain Nicolson (Depute Convener):

Councillor Alison Ann-Dowling: Councillor Jacqueline Cameron: Councillor David McGonigle:

Apologies

Apologies from members.

Declarations of Interest

Members are asked to declare an interest in any item(s) on the agenda and to provide a brief explanation of the nature of the interest.

Items of business

To Follow Item

I refer to the agenda for the meeting of the Investment Review Board to be held on 16 November 2022 at 11: 00 am and enclose the undernoted reports relative to items 2 and 3 previously marked 'to follow':

- | | | |
|----------|--|---------------|
| 2 | Paisley and Renfrew Common Good Funds: review of investment and income performance -2 | 3 - 14 |
|----------|--|---------------|

Report by Director of Finance & Resources.

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|----------|---|----------------|
| 3 | Paisley and Renfrew Common Good Funds: review of Investment Policy Statement | 15 - 20 |
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Report by Director of Finance & Resources.



To: Investment Review Board

On: 16 November 2022

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 2022

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, abrdn Capital Limited (formerly Aberdeen Standard Capital 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 2022. Hymans Robertson LLP will be represented at the meeting by Kameel Kapitan (Investment Consultant), who will present his report to Members, and by David Millar (DC Consultant). Mr Kapitan will also give a presentation covering an update on markets and the current economic climate.
- 1.3 Gair Brisbane, Senior Charity Portfolio Manager, abrdn 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 report and presentation from Hymans Robertson LLP and the presentation by abrdn 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 Investment Policy Statement.
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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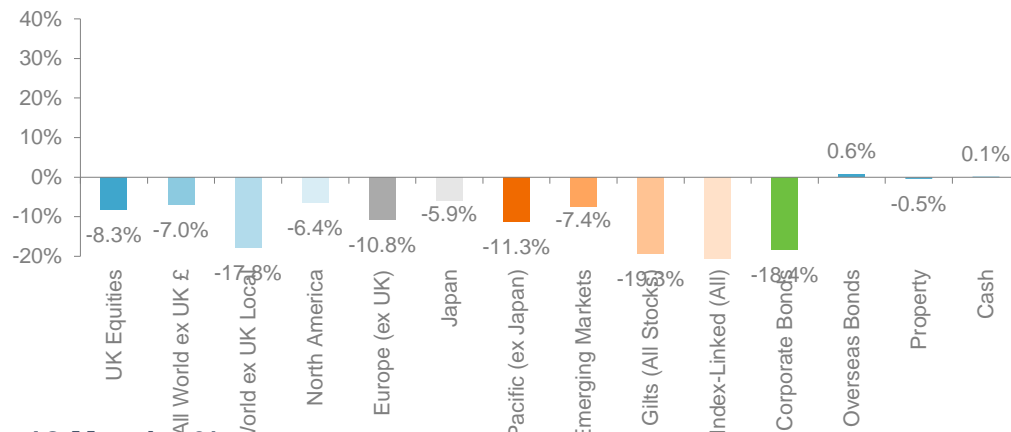
Renfrewshire Council Common Good Funds

Review of Investment Managers'
Performance for the 6 months to 30
September 2022

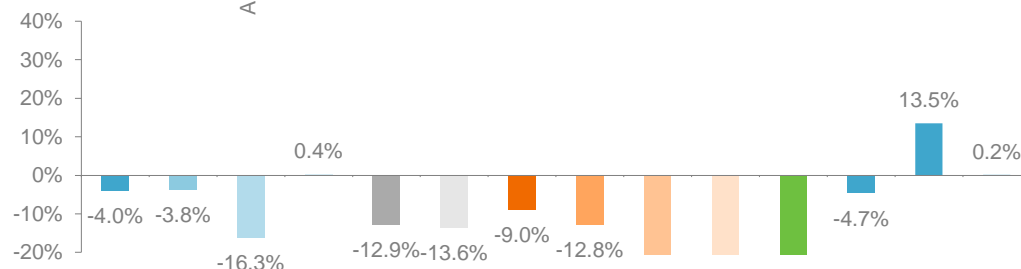
Kameel Kapitan, Investment Consultant

Market Background – 6 Months to 30 September 2022^[1]

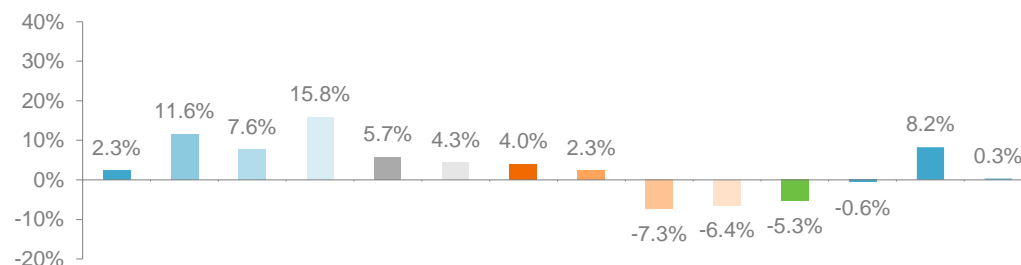
6 Months %



12 Months %



3 Years % p.a.



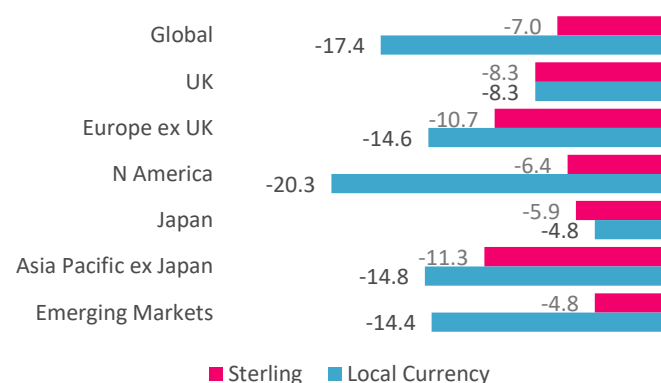
The 6 month period to end September 2022 was particularly challenging for investment markets, with economic momentum slowing as higher borrowing costs and soaring inflation squeezed consumer's real incomes. Combined with the prospect of tighter financial conditions, these aspects have given rise to fears of recession, resulting in downward revisions to global growth forecasts for 2022 and 2023.

Global equity markets fell 17.3% (local currency) over the period. From a sectoral standpoint, the more defensive consumer staples and utilities sectors outperformed. Similar to the previous 6 month period, energy was the best performing sector, continuing to be boosted by surging oil and gas prices. The technology sector, which is more sensitive to rising rates, materially underperformed. More cyclical sectors like consumer discretionary also performed poorly.

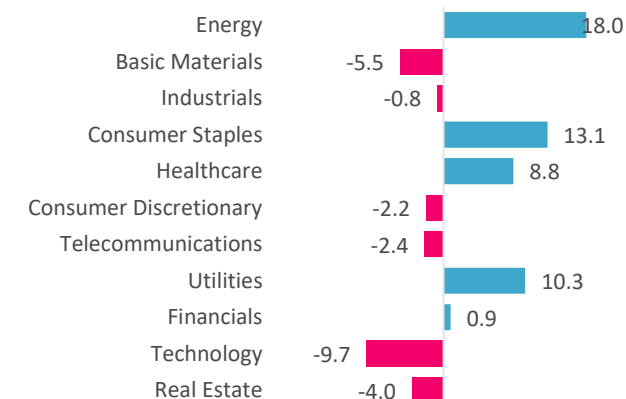
Regionally, the tech-heavy US equity market underperformed, albeit the strengthening dollar will have helped moderate to a degree returns for UK investors. European markets also lagged as markets priced in a larger impact of Russia's invasion of Ukraine on continental Europe. Above average exposure to energy, metals and miners saw the UK perform relatively well.

In fixed income markets, both nominal and index-linked gilts further suffered in the rising yield environment although. Within investment grade credit markets, global spreads increased by 0.8% p.a., while US and European speculative-grade spreads increased 2.8% p.a. and 3.1% p.a., respectively. The larger increase in speculative markets is to be expected in a risk-off environment.

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

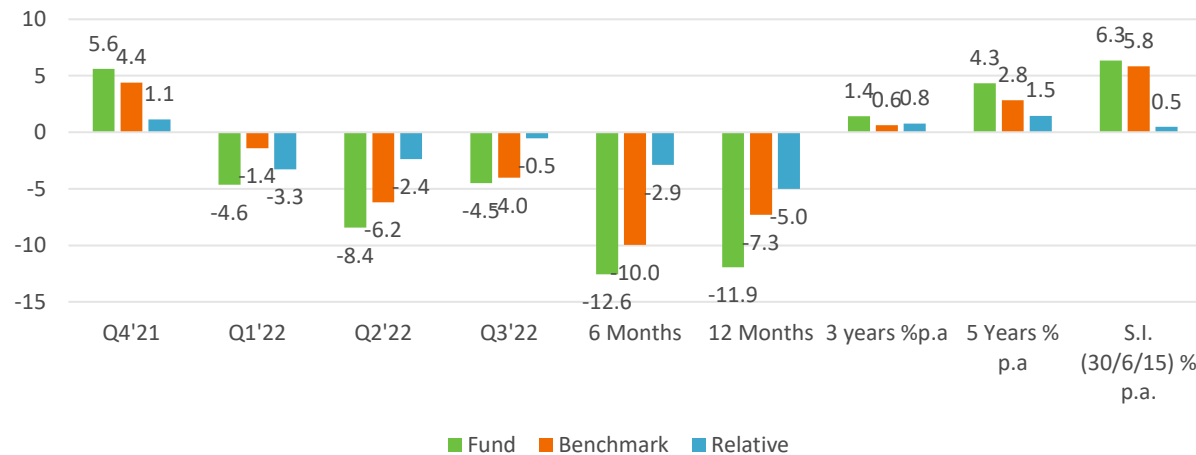
Valuation

	Value (£m)		Proportions		Difference
	31/03/2022	30/09/2022	Actual %	Benchmark %	
UK Equity	1.71	1.73	38.2%	60.0%	-21.8%
Overseas Equity	2.73	2.17	48.2%	20.0%	28.2%
Total Equity	4.44	3.90	86.4%	80.0%	6.4%
UK Government Bonds	0.28	0.28	6.2%	18.0%	-11.8%
UK Non Government Bonds	0.28	0.16	3.5%		3.5%
International Bonds	0.10	0.09	1.9%		1.9%
Total Bonds	0.66	0.53	11.7%	18.0%	-6.3%
Cash	0.16	0.09	2.0%	2.0%	0.0%
Total	5.26	4.51			

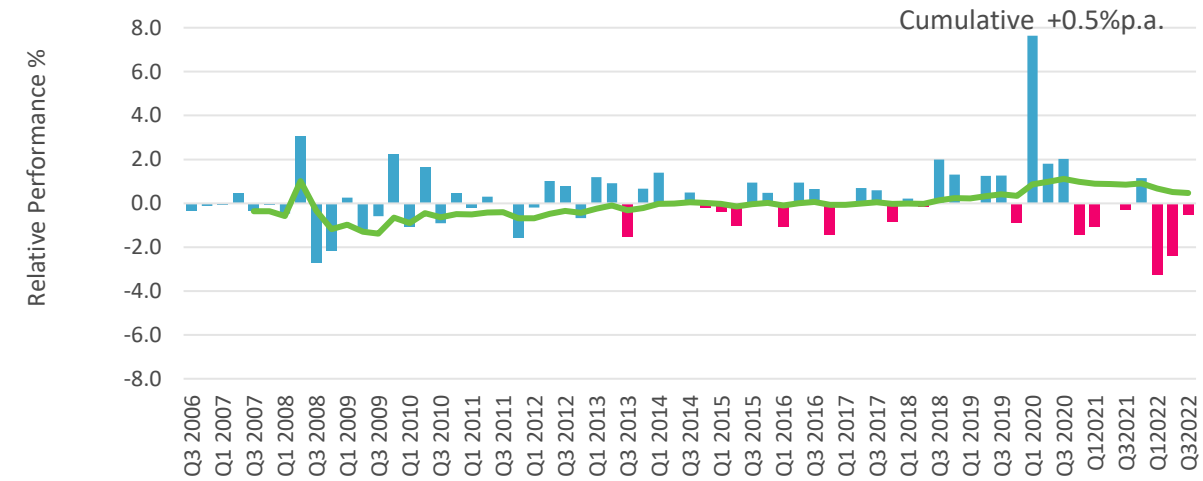
Income

(Standard Life) Estimated Annual Income	
31/03/2022	£158,412
30/06/2022	£154,013
30/09/2022	£155,401
Target	£125,000

Performance



Cumulative Performance



Valuation and Performance - Renfrew Common Good Fund

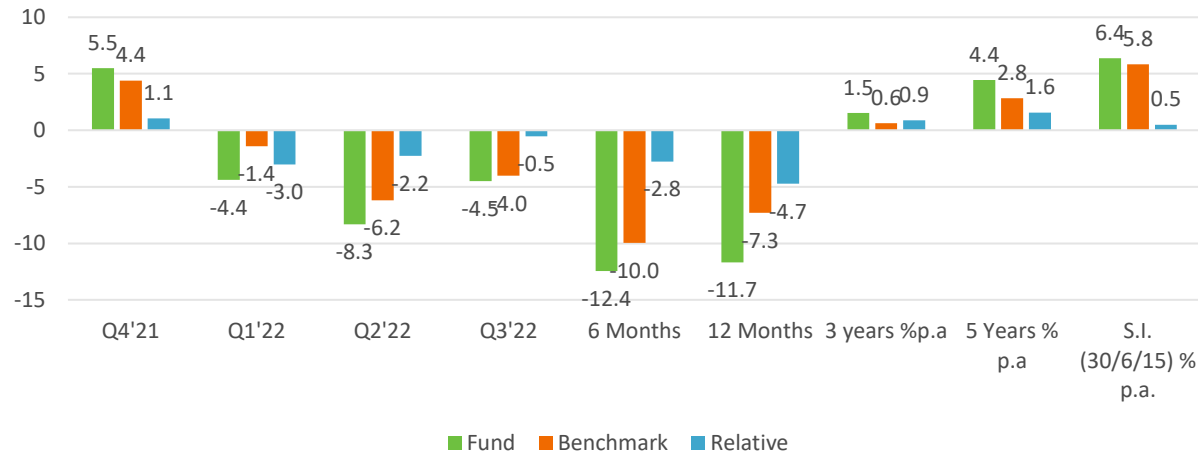
Valuation

	Value (£m)		Proportions		Difference
	31/03/2022	30/09/2022	Actual %	Benchmark %	
UK Equity	6.55	6.59	38.2%	60.0%	-21.8%
Overseas Equity	10.34	8.36	48.5%	20.0%	28.5%
Total Equity	16.89	14.95	86.7%	80.0%	6.7%
UK Government Bonds	0.95	1.07	6.2%	18.0%	-11.8%
UK Non Government Bonds	1.17	0.62	3.6%		3.6%
International Bonds	0.39	0.33	1.9%		1.9%
Total Bonds	2.51	2.02	11.7%	18.0%	-6.3%
Cash	0.66	0.28	1.6%	2.0%	-0.4%
Total	20.07	17.25			

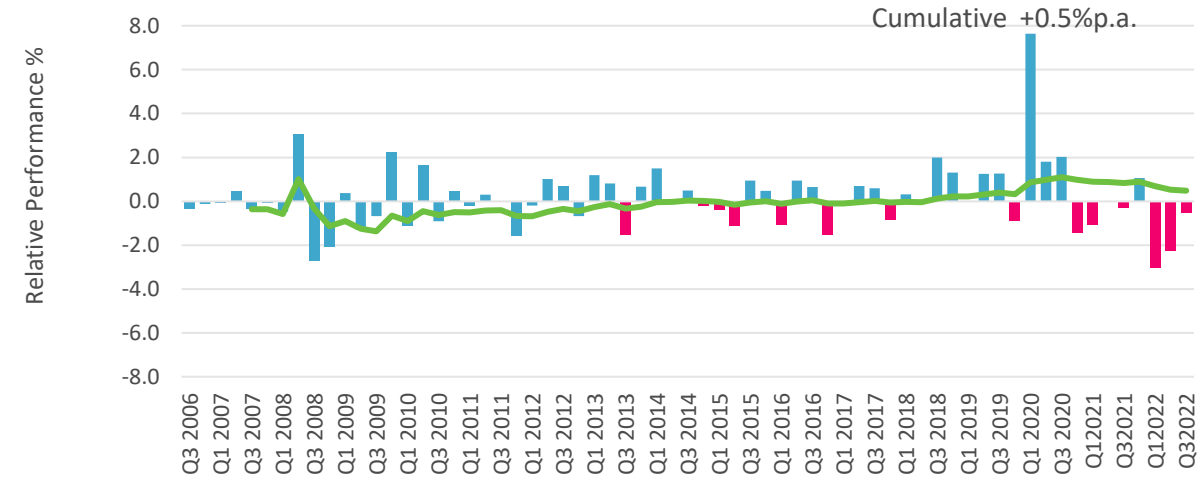
Income

(Standard Life) Estimated Annual Income	
31/03/2022	£608,183
30/06/2022	£591,508
30/09/2022	£597,182
Target	£475,000

Performance



Cumulative Performance



Commentary

In a challenging period, the Paisley and Renfrew funds returned -12.6% and -12.4% respectively over the 6 months to 30 September 2022; over the same period, the benchmark achieved a return of -10.0%. Both quarters contributed to the overall negative return – a Q2 return of around -8.3% was followed by a Q3 fall of c4.5%. In a period where largely all asset classes suffered, both the funds equity and bonds assets falling delivered negative returns.

Growing concerns about sustained high inflation was met with more aggressive messaging and action by central banks, providing further tailwinds for fixed income assets. The longer duration bonds held by the fund will have been more impacted by the rising yields versus their shorter duration counterparts – longer duration assets are more price sensitive to a change in the underlying interest rate.

Within equities, the weakening Sterling, particularly over Q3 provided some light relief to falling markets. To provide context, in Q3 2022 the FTSE All World index fell 4.8% in local terms but the depreciation of Sterling over the period resulted in a 1.4% return to unhedged UK investors. The Common Good Funds overseas equities will have benefited here.

The underperformance against benchmark, primarily stemmed from Q2 performance. Over this period cyclical assets performed well whilst the rising interest rate environment continued to weigh on the performance of growth stocks like technology. 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 now in negative territory in both absolute and relative terms, a return of almost -12% lagging the benchmark return of -7.3%. However, returns over 3 and 5 years remain positive in both absolute and relative terms, albeit they are unsurprisingly a little more subdued - returns of c1.5% p.a. and c4.5% p.a. versus benchmark returns of 0.6% p.a. and 2.8% p.a. respectively. Since the inception of the mandate, on 1 July 2006, the Fund return of +6.3/6.4% p.a. is strong in absolute terms and comfortably ahead of the benchmark return of 5.8% p.a. Furthermore, throughout this time the investment manager has continued to comfortably meet a demanding income target.

As at the end of September 2022, the allocation to equities (c86.5%) 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. Despite the UK outperforming many regions over the 6 month period to September in local currency terms, as a result of the strengthening dollar, this trend continued as global earnings when converted back to Sterling helped moderate losses. The overweight to equities as whole has been beneficial as equities have outperformed bonds, particularly over 2022 in a rising rate environment.

The exposure to bonds was 11.7% at end September 2022 compared to a benchmark allocation of 18%. The allocation to cash was around 2%, in line with benchmark. Interestingly, with the increase in yields year to date, fixed income assets (bonds) are looking relatively more attractive, something the manager may seek to take advantage off in repositioning the allocation back towards the strategic allocation.

Appendices



Asset Allocation

Paisley Common Good Fund

31/03/2022	Benchmark	Fund	Difference
UK Equity	60.0%	32.6%	-27.4%
Overseas Equity	20.0%	51.8%	31.8%
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%	

30/09/2022	Benchmark	Fund	Difference
UK Equity	60.0%	38.2%	-21.8%
Overseas Equity	20.0%	48.2%	28.2%
Total Equity	80.0%	86.4%	6.4%
UK Government Bonds	18.0%	6.2%	-11.8%
UK Non Government Bonds		3.5%	3.5%
International Bonds		1.9%	1.9%
Total Bonds	18.0%	11.7%	-6.3%
Cash	2.0%	2.0%	0.0%
Total	100.0%	100.0%	

Renfrew Common Good Fund

31/03/2022	Benchmark	Fund	Difference
UK Equity	60.0%	32.6%	-27.4%
Overseas Equity	20.0%	51.5%	31.5%
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%	

30/09/2022	Benchmark	Fund	Difference
UK Equity	60.0%	38.2%	-21.8%
Overseas Equity	20.0%	48.5%	28.5%
Total Equity	80.0%	86.7%	6.7%
UK Government Bonds	18.0%	6.2%	-11.8%
UK Non Government Bonds		3.6%	3.6%
International Bonds		1.9%	1.9%
Total Bonds	18.0%	11.7%	-6.3%
Cash	2.0%	1.6%	-0.4%
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:

$$((1 + \text{Fund Performance}) / (1 + \text{Benchmark Performance})) - 1$$

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.

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.

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To: Investment Review Board

On: 16 November 2022

Report by: Director of Finance and Resources

Heading: Review of Investment Policy Statement

1. Summary

- 1.1 The Council has arranged for the investments of the Paisley and Renfrew Common Good Funds to be managed by abrdn Capital Limited, and has agreed with the manager a number of principles which govern decisions regarding those investments.
 - 1.2 These principles cover a range of issues, such as what benchmark should be employed against which to assess the manager's performance, and any restrictions the manager must observe in choosing sectors or classes of asset in which to invest. These requirements are formalised in an Investment Policy Statement, and this document is reviewed annually to ensure that the principles remain appropriate to the requirements of the Common Good Funds.
 - 1.3 The Statement of Investment Policy was last reviewed in November 2021, and is due for review.
 - 1.4 Confirmation was received that on 22 August 2022 that both Paisley and Renfrew Common Good Funds have been de-registered from the Scottish Charities Register. The Investment Policy Statement has been updated to reflect this change.
-

2. Recommendations

- 2.1 To consider and approve the Statement of Investment Principles which is attached to this report.
-

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 regulations, and in line with the Investment Policy Statement.
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 Investment Policy Statement outlines a medium level of risk to be adopted by the Investment Manager.
11. **Privacy Impact** – none
12. **COSLA Policy Position** – none
13. **Climate Risk** – none

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Renfrewshire Council Paisley Common Good Fund

Investment Policy Statement

A: Introduction

1. The Paisley Common Good Fund operates for the benefit (or “common good”) of the inhabitants living within the former burghs of Paisley. The Paisley Common Good Fund (hereinafter “the common good”) provides financial support to third party organisations and also support activities taking place within the former burgh boundaries.
2. The elected members of Renfrewshire Council are ex-officio Trustees of the common good. Decisions regarding the operation, assets, processes or policies are delegated by the Council to the Finance, Resources and Customer Services Policy Board (FRCSPB). The investment performance of the Common Good is monitored regularly by Council officers, and is reported bi-annually to the Investment Review Board (a sub-committee of the FRCSPB), which is comprised of 5 cross party elected members.

Purpose of statement

3. This policy statement sets out the principles and governance under which the investment of the assets of the common good is managed. The Director of Finance and Resources of Renfrewshire Council has issued this statement as Treasurer on behalf of the common good.

Consultation

4. The Director of Finance and Resources of Renfrewshire Council has consulted with abrdn (the investment manager) and with Hymans Robertson LLP (the investment advisor) about the content of the statement.

Investment powers

5. The Director of Finance and Resources has authority as Treasurer of the Common Good to invest the funds in such investments, securities or property, as may be thought fit.
6. The investment manager, abrdn, is responsible for the allocation of assets between types of investments and for the selection of individual stocks within each type of investment. The funds are managed on a discretionary basis where the investment manager makes all investment decisions in line with this policy.

7. Other than heritable property held as investment assets, and cash required in the short term, the Director and officers rely on professional investment managers for the day-to-day management of the assets of the common good.

Investment objectives

8. The investment manager has been instructed as a primary objective to achieve a regular stream of income. The outgoings shall be as determined on an annual basis by the Investment Review Board. A secondary objective is to grow the real value of capital over the longer term.

B: Diversification and risk controls

Risk

9. The Trustees seek a moderate risk approach (classed as “medium high” in the rating methodology employed by abrdn) through a diversified portfolio invested in a broad spread of equities but also including a proportion of fixed interest securities, property, cash and other such investments as the Trustees approve.

Custody

10. Our appointed investment manager is responsible for appointing a recognised custodian for the assets of the common good.

Investment Manager restrictions

11. The Trustees require their investment manager to consider environmental, social and governance (ESG) factors in making investment decisions. Each investment decision shall be made on a balanced view on the overall investment case for a particular sector or stock. In general terms, this means that ESG investment concerns should be taken into account when the decision whether to invest is being made. This does not mean that the decision whether or not to invest depends entirely on the assessment of these factors, but that they should be considered along with all relevant factors when decisions to buy, hold or sell investments are being made.
12. The Trustees note the UN Principles for Responsible Investment (UNPRI) as an approach which sets out global best practice in the area of ESG. The Trustees prefer to work with an investment manager who is a signatory to the UNPRI and note abrdn, as part of Aberdeen Standard Investments, is a signatory.
13. The common good has an interest in environmental sustainability and the impact of climate change on the planet and communities, the Trustees consider that there are some investments which they would wish to exclude from the portfolio as they are not aligned with or run contrary to the objectives of the Common Good; or because they may cause reputational damage to the

Common Good. The Investment Review Board (on behalf of Trustees) has agreed the following specific restrictions:

- Ethical screening criteria
 - No direct investment in tobacco stocks.
 - No direct investment in any company generating more than 5% of revenue from gambling
 - No direct investment in any company involved in the production of armaments (noting that abrdn, as part of Aberdeen Standard Investments, supports the principles in both the Convention on Cluster Munitions 2008 and the 1997 Convention on Anti-Personnel Mines, which ban these weapons as defined by the conventions; and will not knowingly invest in companies producing or selling these weapons)
 - No direct investment in fossil fuel stocks, by which we mean the oil and gas majors and thermal coal extractive companies
- Other restrictions
 - A target of 15%, variable to any level between 10% and 20% at the discretion of the investment manager depending on market conditions, to be held in fixed interest stocks.

Manager controls

14. Powers of investment delegated to the investment manager must be exercised with a view to giving effect to the principles contained in this policy so far as is reasonably practicable.

Taxation

15. The investment manager shall provide annually an HM Revenue & Customs approved tax voucher with supporting schedules detailing dividend income received.

Performance measurement

16. The Treasurer on behalf of Trustees will monitor the performance of the portfolio against its objectives on a quarterly basis. The performance of the respective elements of the portfolio will be measured against the respective benchmark for that investment as outlined in the table below:

Asset class	Index	Weighting
UK Equities	FTSE All-Share Index	60%
Global Equities	FTSE World ex UK	20%
Fixed interest securities	FTA All-UK Government Stocks Index	18%
Cash	UK Interbank 7 day	2%

The Investment Review Board will review the suitability of the benchmarks annually.

Reporting

17. The investment manager will prepare an investment report on the funds every quarter plus an annual review of the year. The investment manager will also attend bi-annual meetings of the Investment Review Board.

Duration of contract

18. The option to extend the contract with abrdn was exercised on 1 July 2022 for a two-year period ending on 30 June 2024.

Frequency of review

19. The Investment Review Board will review this policy annually, or sooner if circumstances demand it.