

To: Investment Review Board

On: 7 June 2017

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 31 March 2017. 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 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** – 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 6 Months to 31 March 2017



Prepared by:

David Millar - Associate Consultant

Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP

May 2017

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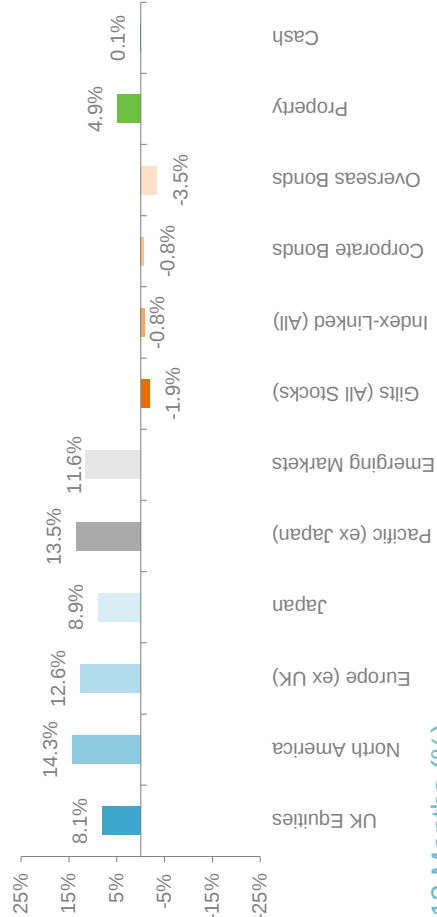
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in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

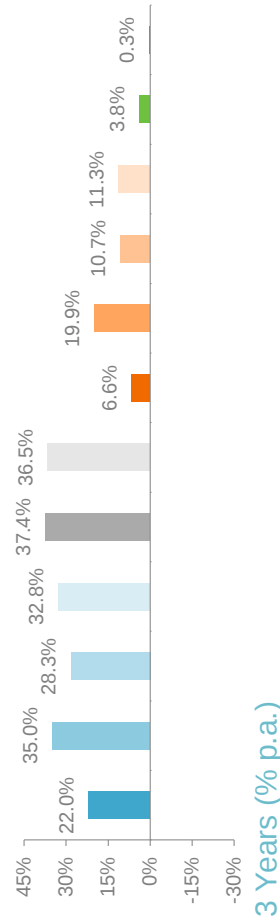
Hymans Robertson LLP, has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss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

Historic Returns for World Markets to 31 March 2017

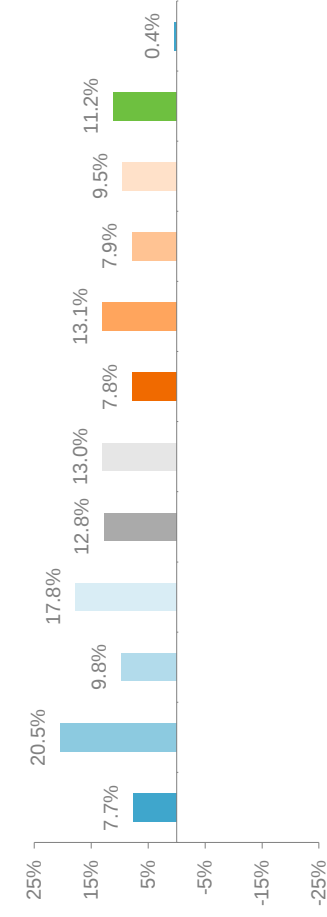
6 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comments

Survey data suggested sustained strength in business conditions over the period. The Global Manufacturing PMI index remained at its highest level for almost six years in March. Official economic releases suggested a more subdued outlook.

The US Federal Reserve raised US interest rates twice over the period, to a range of 0.75%-1% p.a. by the end of March 2017. Although the second increase was sooner than markets had expected at the start of 2017, it came as no surprise by the time it happened.

A resilient post-referendum performance from the UK economy and some fiscal easing lowered expectations that the Bank of England will cut interest rates again in the short term.

Headline inflation reached 2% or higher in the US, Eurozone and UK by the end of the period. February's UK CPI inflation of 2.3% was the highest level since September 2013.

OPEC and non-OPEC oil-producing nations agreed at the end of November 2016 to cut production of oil by 600,000 barrels per day. These cuts seemed to be holding into 2017, but much of the benefit was offset by resurgent US shale oil production. Brent crude rose overall from \$49 to \$53 a barrel – over the period.

US Treasury Bond yields moved sharply higher following the Presidential election and have traded in a narrow range since December. 10-year yields rose from 1.6% p.a. to 2.4% p.a. over the period. The rise in equivalent gilt yields was more modest – from 0.8% p.a. to 1.1% p.a.

Yield spreads in global credit markets continued to narrow, towards levels last seen in mid-2014 before the oil price collapse. Performance in sterling investment-grade markets was more subdued. Here, yield spreads on corporate bonds were broadly unchanged.

Higher interest rates supported the US dollar, which was the strongest of the major currencies towards the end of 2016. Currency markets were broadly stable in the first quarter of 2017.

Global equities had a subdued start to the period before responding positively to the US election. In January, global equity indices surpassed 2015's all-time highs in local currency terms and ended the period just below March's best levels.

The strongest global equity sectors were Financials (+19.6%) and Technology (+17.3%), while the weakest were the more defensive sectors of Health Care (+6.3%) and Telecoms (4.1%).

UK commercial property values started to recover modestly from the post-referendum downturn. Industrials, of the traditional sectors and Leisure, of the newer specialist sectors, had the best short-term momentum.

Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Paisley Common Good Fund: Portfolio Summary

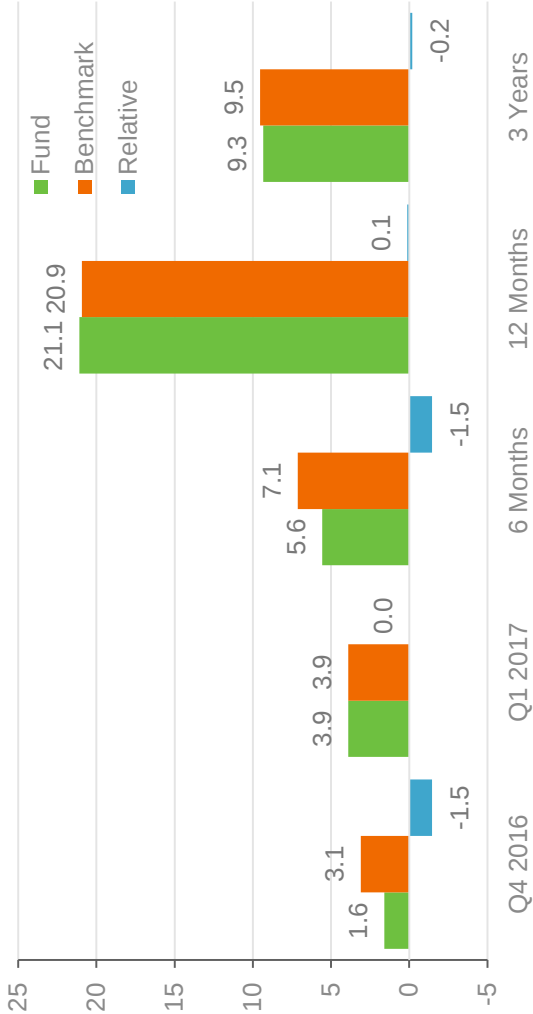
Valuation Summary

	Values (£m)		Actual Proportion %	Target Proportion %	Difference	
	30/09/2016	31/03/2017			%	
UK Equities	1.753	1.842	46.4	60.0	-13.6	
International Equities	1.348	1.373	34.6	20.0	14.6	
UK Bonds	0.513	0.502	12.6	18.0	-5.4	
International Bonds	0.120	0.117	3.0	0.0	3.0	
Property	0.000	0.000	0.0	0.0	0.0	
Cash/Other	0.084	0.134	3.4	2.0	1.4	
Total	3.818	3.968	100.0%	100.0%		

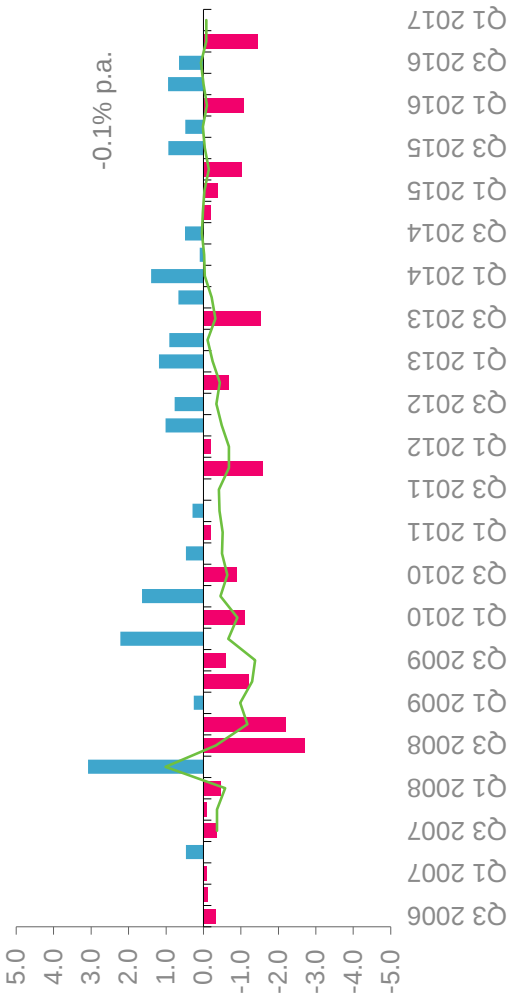
Estimated income includes UK equity dividends on a net, cash received, basis.

	(Standard Life) Estimated Annual Income		Target
	30/09/2016	29/12/2016	31/03/2017
	£136,856	£137,219	£148,727
			£102,700

Performance Summary



Relative Quarterly and Relative Cumulative Performance



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

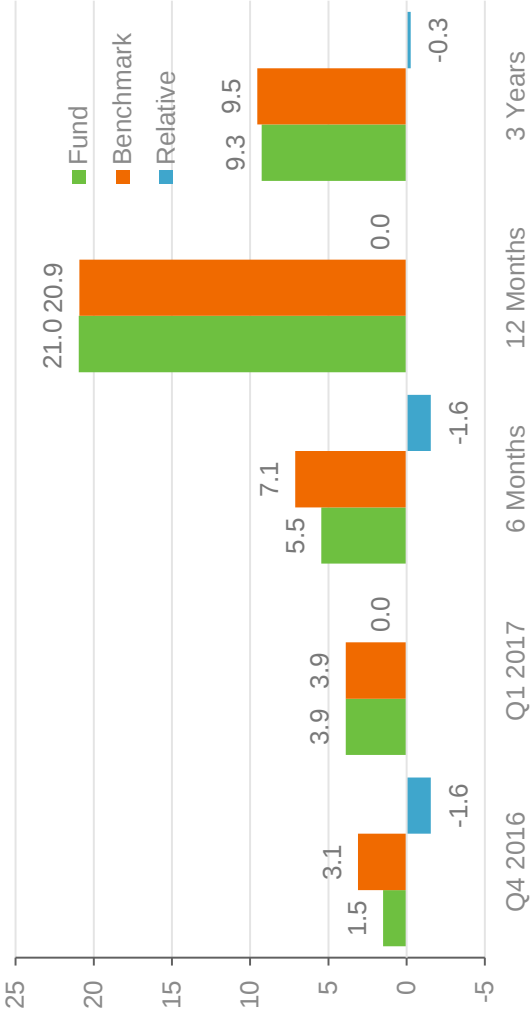
Renfrew Common Good Fund: Portfolio Summary

Valuation Summary

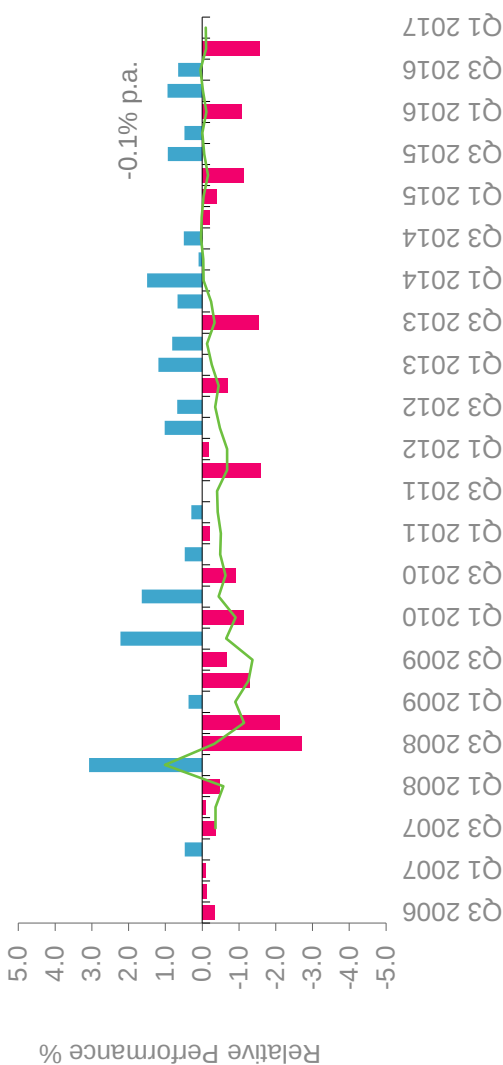
	Values (£m)		Actual Proportion %	Target Proportion %	Difference	
	30/09/2016	31/03/2017			%	
UK Equities	5.927	6.217	46.4	60.0	-13.6	
International Equities	4.566	4.657	34.7	20.0	14.7	
UK Bonds	1.748	1.708	12.7	18.0	-5.3	
International Bonds	0.399	0.391	2.9	0.0	2.9	
Property	0.000	0.000	0.0	0.0	0.0	
Cash/Other	0.256	0.435	3.2	2.0	1.2	
Total	12.896	13.407	100.0%	100.0%		
(Standard Life) Estimated Annual Income		31/03/2017	Target			
		30/09/2016	29/12/2016	31/03/2017		
		£461,209	£451,546	£ 503,372.00		
				£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 5.6% between end September 2016 (the effective date of the immediately preceding report) and end March 2017; over the same period, the benchmark achieved a return of 7.1%. Whilst providing a strong return in absolute terms, the underperformance over the 6 month period was mostly attributable to the more stable / defensive nature of the equity holdings. In the final quarter of 2016 in particular, more cyclical / economically sensitive stocks performed better.

Since the inception of the mandate, on 1 July 2006, the Fund return of +7.2% p.a. broadly matched the benchmark return of +7.3% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end March 2017, the allocation to equities (81.0%) 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 15.6% at end March 2017 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2017 was 3.4% (1.4% above the benchmark allocation) compared with 2.2% at the end September 2016.

Over the 6 month period to end March 2017, equities continued to perform strongly and have been the main driver of portfolio return. The positive market momentum of 2016 carried on into the first quarter of 2017. Sterling depreciation, which was a factor in 2016, stabilised in 2017 but has boosted the returns from overseas equities for sterling investors. The manager’s overweight position to equities has been beneficial as equities have been the strongest performing asset class and within equities the overweight position to overseas equities has been beneficial.

Quarter 4 saw pressure on bond prices with some inflationary pressures in the economy resulting in falling bond prices in the latter stages of the year (following a sustained period of rising prices). However, in the first quarter of 2017, bonds appreciated in value recouping some of those falls as investors continued to look to bonds for income in an environment of continuing low interest rates. Over the whole 6 month period under review, bond returns were modestly negative in absolute terms. The manager holds approximately half of the portfolio’s bond holdings in corporate bonds which outperformed government gilts over the 6 months.

Questions for the investment manager;

What is the latest news on the merger of Standard Life and Aberdeen Asset Management?

What aspects of the portfolio can protect against political and economic news flow which can lead to market volatility?

What is the rationale for the modest increase in the cash holding?

Performance Summary

6 Months (%)

12 Months (%)

3 years (%)

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

Paisley CGF	
Fund	5.6
Benchmark	7.1
Relative	-1.5
Fund	21.1
Benchmark	20.9
Relative	0.1
Fund	9.3
Benchmark	9.5
Relative	-0.2
Fund	7.2
Benchmark	7.3
Relative	-0.1



Renfrew Common Good Fund: Allocation and Performance

Commentary on Renfrew Common Good Fund

The Fund, in aggregate, returned 5.5% between end September 2016 (the effective date of the immediately preceding report) and end March 2017; over the same period, the benchmark achieved a return of 7.1%. Whilst providing a strong return in absolute terms, the underperformance over the 6 month period was mostly attributable to the more stable / defensive nature of the equity holdings. In the final quarter of 2016 in particular, more cyclical / economically sensitive stocks performed better.

Since the inception of the mandate, on 1 July 2006, the Fund return of +7.2% p.a. broadly matched the benchmark return of +7.3% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end March 2017, the allocation to equities (81.1%) 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 15.6% at end March 2017 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2017 was 3.4% (1.4% above the benchmark allocation) compared with 2.0% at the end September 2016.

Over the 6 month period to end March 2017, equities continued to perform strongly and have been the main driver of portfolio return. The positive market momentum of 2016 carried on into the first quarter of 2017. Sterling depreciation, which was a factor in 2016, stabilised in 2017 but has boosted the returns from overseas equities for sterling investors. The manager’s overweight position to equities has been beneficial as equities have been the strongest performing asset class and within equities the overweight position to overseas equities has been beneficial.

Quarter 4 saw pressure on bond prices with some inflationary pressures in the economy resulting in falling bond prices in the latter stages of the year (following a sustained period of rising prices). However, in the first quarter of 2017, bonds appreciated in value recouping some of those falls as investors continued to look to bonds for income in an environment of continuing low interest rates. Over the whole 6 month period under review, bond returns were modestly negative in absolute terms. The manager holds approximately half of the portfolio’s bond holdings in corporate bonds which outperformed government gilts over the 6 months.

Questions for the investment manager;

What is the latest news on the merger of Standard Life and Aberdeen Asset Management?

What aspects of the portfolio can protect against political and economic news flow which can lead to market volatility?

What is the rationale for the modest increase in the cash holding?

Performance Summary

6 Months (%)

Renfrew CGF		
Fund	5.5	
Benchmark	7.1	
Relative	-1.6	
Fund	21.0	
Benchmark	20.9	
Relative	0.0	
Fund	9.3	
Benchmark	9.5	
Relative	-0.3	
Fund	7.2	
Benchmark	7.3	
Relative	-0.1	

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

30 September 2016

Asset Allocation

31 March 2017

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%

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	46.4%	-13.6%
International Equities	20.0%	34.6%	14.6%
UK Bonds	18.0%	12.6%	-5.4%
International Bonds	0.0%	3.0%	3.0%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	3.4%	1.4%
Total	100.0%	100.0%	0.0%

Renfrew Common Good Fund

Asset Allocation

30 September 2016

Asset Allocation

31 March 2017

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%

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	46.4%	-13.6%
International Equities	20.0%	34.7%	14.7%
UK Bonds	18.0%	12.7%	-5.3%
International Bonds	0.0%	2.9%	2.9%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	3.2%	1.2%
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	-3.4	-1.9	7.9	6.6	-0.2	-0.1
Corporate Bonds	0.6	-1.1	10.6	9.3	0.0	0.2
International Bonds	-0.5	-3.4	7.4	2.4	0.0	0.1
UK Equities	7.7	8.1	25.4	22.0	3.6	-0.1
Overseas Equities	11.0	13.3	29.9	33.8	3.8	-0.7
Total Assets	5.6	7.1	21.1	20.9		

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	-3.4	-1.9	7.9	6.6	-0.2	-0.1
Corporate Bonds	0.4	-1.1	11.0	9.3	0.0	0.2
International Bonds	-0.5	-3.4	7.4	2.4	0.0	0.1
UK Equities	7.7	8.1	25.4	22.0	3.6	-0.1
Overseas Equities	11.0	13.3	29.9	33.8	3.8	-0.7
Total Assets	5.5	7.1	21.0	20.9		



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.