

To: Investment Review Board

On: 21 November 2018

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 2018

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 2018. Hymans Robertson LLP will be represented at the meeting by David Millar (Associate Consultant), who will present his report to Members. The investment managers will not be present during this part of the meeting.
- 1.3 Mike Connor, Private Client Head of Office, and Gair Brisbane, Senior Charity Portfolio Manager, both of Standard Life Wealth Limited, will then join the meeting. Messrs Connor and Brisbane will give a short presentation during which there will be an opportunity for Members to question them directly in regard to their presentation and Fund performance.
-

2. **Recommendations**

- 2.1 To consider the attached report from 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 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

Author: Richard Conway, extension 7377

Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the 6 Months to 30 September 2018



Prepared by:

David Millar- Associate Consultant

Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP

October 2018

Contents

Page



Markets

Historic Returns for World Markets to 30 September 2018

3



Portfolio Summary

Paisley Common Good Fund

4

Renfrew Common Good Fund

5



Fund Specific Asset Allocation and Performance

Paisley Common Good Fund

6

Renfrew Common Good Fund

7



Appendices

Asset Allocation

8

Performance by Asset Class

9

Explanation of Performance Calculations

10

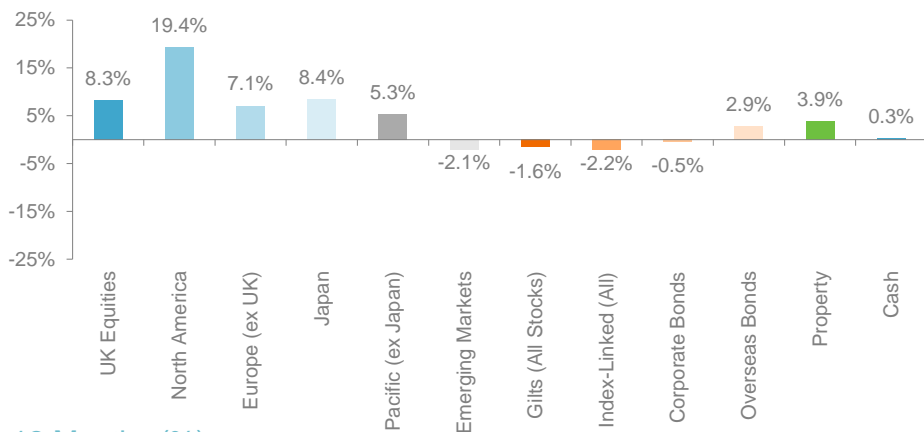
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile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

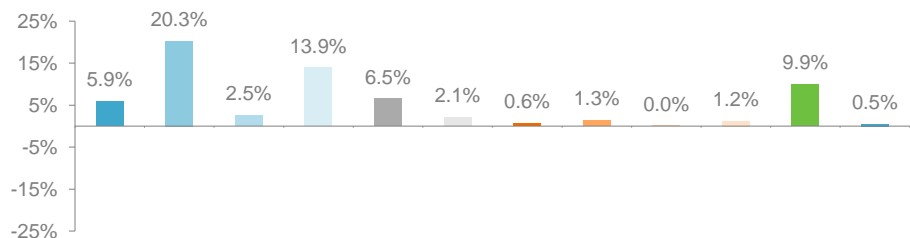


Historic Returns for World Markets to 30 September 2018

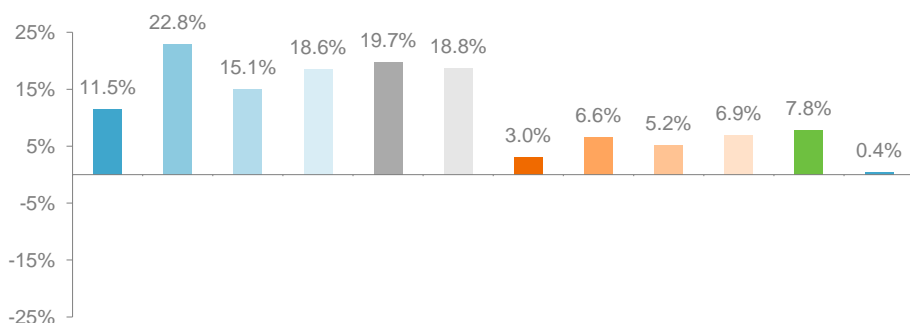
6 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comments.

After a disappointing start to the year, global growth picked up in the second quarter. The US, boosted by recent tax cuts, led the way. Business surveys suggested the momentum was largely sustained over the summer, although risks to the outlook – trade wars, Brexit, Eurozone political tension – assumed greater prominence.

Oil prices continued to rise as the US re-imposed sanctions on Iran; the Venezuelan economy imploded; and OPEC and Russia ignored US requests to increase output. Brent crude reached a 4-year high of \$82 a barrel in September.

The downward drift in headline UK CPI inflation stalled, although underlying inflation measures continued to ease. However, the Bank of England raised interest rates from 0.5% p.a. to 0.75% p.a. in August, citing a limited degree of 'slack' in the economy.

In the US, economic strength and another two interest rate rises helped to propel government bond yields to their highest level for seven years. Gilts followed in their wake: 10-year yields rose from 1.4% p.a. to 1.6% p.a. The rise in index-linked yields was smaller.

In general, speculative grade credit markets outperformed investment grade counterparts. Light supply supported US credit while Eurozone political risk weighed on European assets. UK investment grade credit spreads rose marginally over the period.

The main feature of foreign exchange markets was the strength of the US dollar, although its momentum faded towards the end of the period. Sterling was the weakest of the major currencies, falling 2% in trade-weighted terms.

Dollar strength was the catalyst for foreign investors to reduce their exposure to emerging markets (EM). The yield on the benchmark EM debt index rose from 6.0% p.a. to 6.6% p.a. The return from EM equity indices was around -3% in local currency terms.

By contrast, developed equity markets bounced back strongly from an uneasy start to 2018; North America was the best regional performer. The UK performed in line with broad developed market indices over the period – a very strong second quarter was offset by an equally poor third quarter.

Perhaps surprisingly in a strongly rising market, the defensive Healthcare sector was the strongest performer. Boosted by the strength of oil prices, the Oil & Gas sector was also performed strongly. Other defensive areas – Consumer Goods, Telecoms and Utilities – were amongst the poorer performers.

The UK commercial property market carried on with its steady advance. Sector divergence has, if anything, increased: retail values have fallen over the last year, while industrial values are 15% higher.



Paisley Common Good Fund: Portfolio Summary

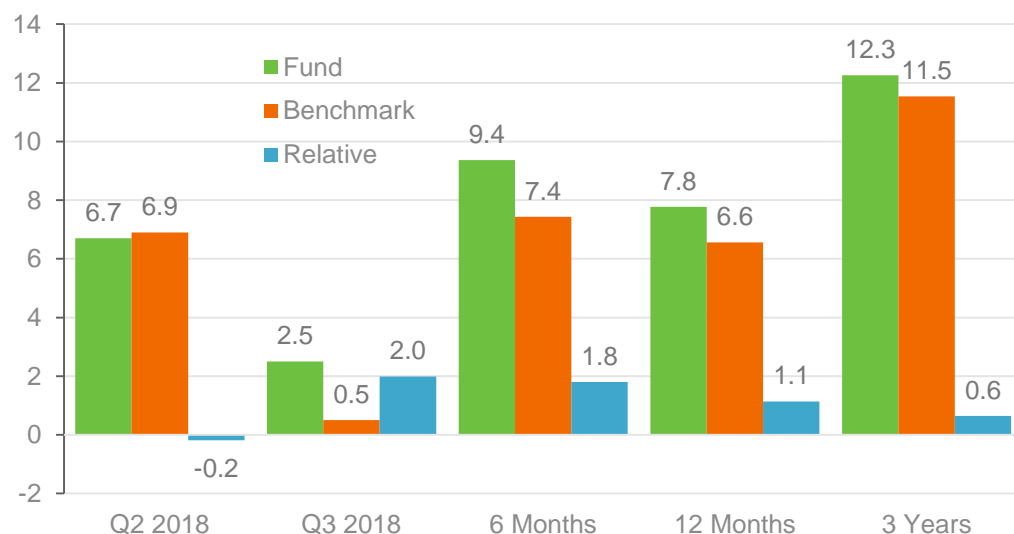
Valuation Summary

	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	31/03/2018	30/09/2018			
UK Equities	1.754	1.808	43.2	60.0	16.8
International Equities	1.444	1.579	37.8	20.0	17.8
UK Bonds	0.507	0.505	12.1	18.0	-5.9
International Bonds	0.122	0.131	3.1	0.0	3.1
Property	0.000	0.000	0.0	0.0	0.0
Cash/Other	0.084	0.160	3.8	2.0	1.8
Total	3.911	4.182	100.0%	100.0%	

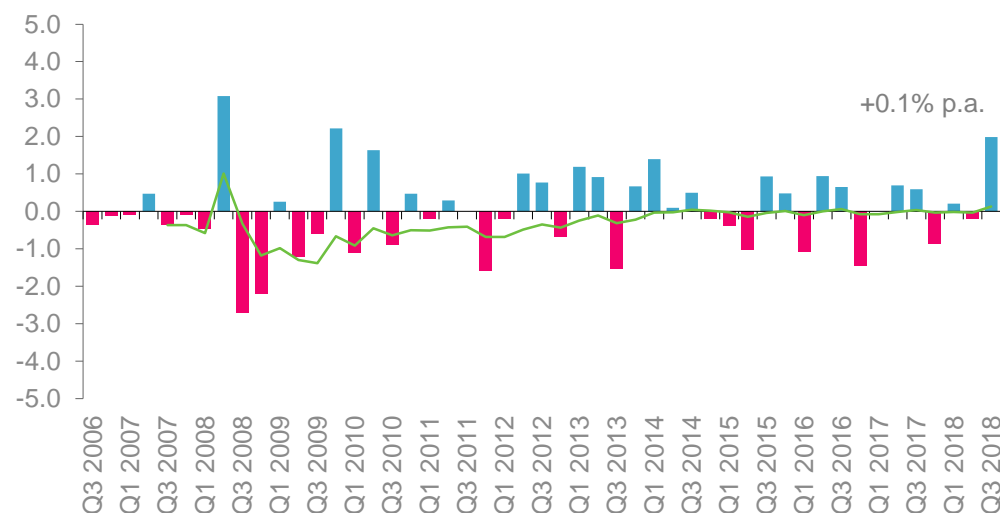
(Standard Life) Estimated Annual Income			Target
31/03/2018	30/06/2018	30/09/2018	
£147,737	£145,053	£146,069	£102,700

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 9.4% between end March 2018 (the effective date of the immediately preceding report) and end September 2018; over the same period, the benchmark achieved a return of 7.4%. Fund returns had remained positive in absolute terms recovering from the negative returns at the start of 2018.

Equity markets have been the main source of absolute return, with UK equities strong in the second quarter of the year but less so in quarter 3. In quarter 3, equity markets were driven by returns from the US as the market advanced on the back of robust economic growth and earnings data.

In terms of relative performance, the Fund significantly outperformed its benchmark over 6 months. This was primarily driven by equity performance in Q3. The Fund's overweight to overseas equities was beneficial. In particular, technology and consumer goods holdings performed well. Positive returns from holdings in alternatives (such as infrastructure) and property boosted the portfolio. The underweight to bonds, especially gilts was beneficial.

Over 12 months, fund returns are positive in absolute terms (+7.8%) and ahead of benchmark by 1.1%. Since the inception of the mandate, on 1 July 2006, the Fund return of +7.3% p.a. is strong in absolute terms and modestly ahead of the benchmark return of +7.1% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end September 2018, 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 15.1% at end September 2018 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2018 was 3.8% (modestly above the benchmark allocation).

Questions for the investment manager;

What is your view on the impact of a "no deal" Brexit on markets?

Your House View remains constructive on risk assets (such as equities) but with caution and with a more subdued outlook for returns. In what ways is the portfolio evolving to take a more cautious view?

What areas of the market in particular are supportive of long term growth?

Performance Summary

		Paisley CGF
6 Months (%)	Fund	9.4
	Benchmark	7.4
	Relative	1.8
12 Months (%)	Fund	7.8
	Benchmark	6.6
	Relative	1.1
3 years (%)	Fund	12.3
	Benchmark	11.5
	Relative	0.6
Since Inception (% p.a.) (1 July 2006)	Fund	7.3
	Benchmark	7.1
	Relative	0.1



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Renfrew Common Good Fund: Portfolio Summary

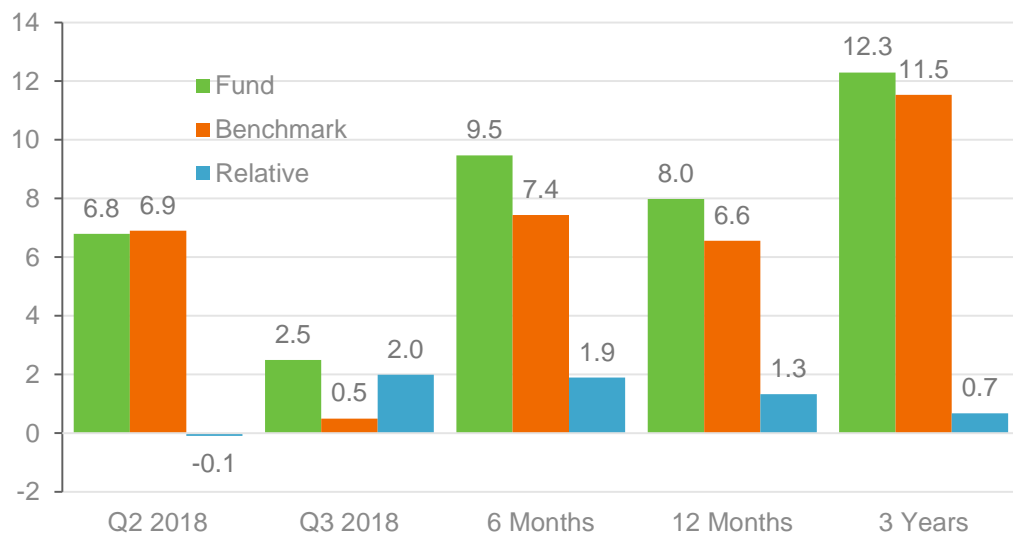
Valuation Summary

	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	31/03/2018	30/09/2018			
UK Equities	5.921	6.107	43.2	60.0	-16.8
International Equities	4.912	5.366	37.9	20.0	17.9
UK Bonds	1.724	1.713	12.1	18.0	-5.9
International Bonds	0.386	0.423	3.0	0.0	3.0
Property	0.000	0.000	0.0	0.0	0.0
Cash/Other	0.277	0.532	3.8	2.0	1.8
Total	13.219	14.140	100.0%	100.0%	

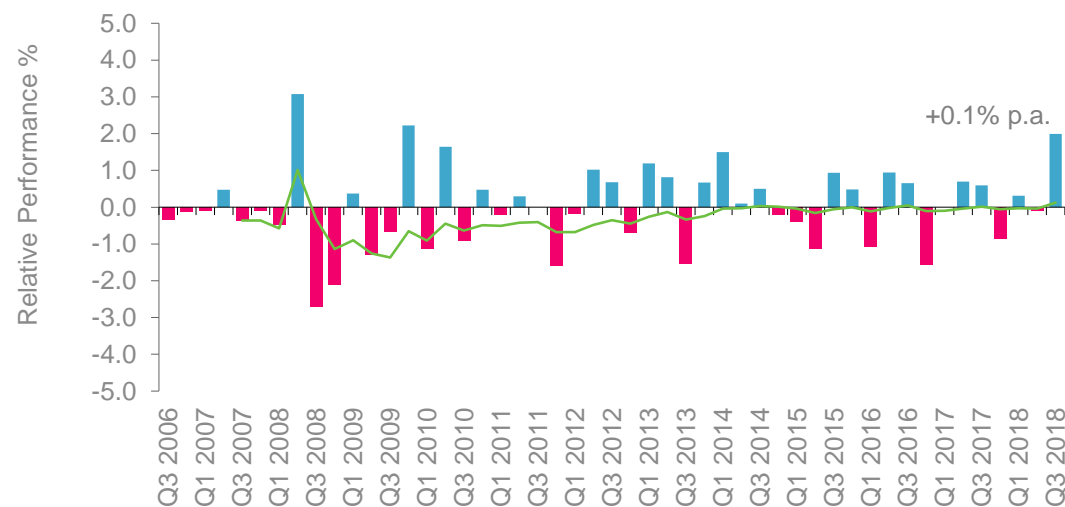
(Standard Life) Estimated Annual Income			Target
31/03/2018	30/06/2018	30/09/2018	
£499,993	£490,756	£ 494,162.00	£346,000

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

Performance Summary



Relative Quarterly and Relative Cumulative Performance



Renfrew Common Good Fund: Allocation and Performance

Commentary on Renfrew Common Good Fund

The Fund, in aggregate, returned 9.5% between end March 2018 (the effective date of the immediately preceding report) and end September 2018; over the same period, the benchmark achieved a return of 7.4%. Fund returns had remained positive in absolute terms recovering from the negative returns at the start of 2018.

Equity markets have been the main source of absolute return, with UK equities strong in the second quarter of the year but less so in quarter 3. In quarter 3, equity markets were driven by returns from the US as the market advanced on the back of robust economic growth and earnings data.

In terms of relative performance, the Fund significantly outperformed its benchmark over 6 months. This was primarily driven by equity performance in Q3. The Fund's overweight to overseas equities was beneficial. In particular, technology and consumer goods holdings performed well. Positive returns from holdings in alternatives (such as infrastructure) and property boosted the portfolio. The underweight to bonds, especially gilts was beneficial.

Over 12 months, fund returns are positive in absolute terms (+8.0%) and ahead of benchmark by 1.3%. Since the inception of the mandate, on 1 July 2006, the Fund return of +7.3% p.a. is strong in absolute terms and modestly ahead of the benchmark return of +7.1% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end September 2018, 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 15.1% at end September 2018 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2018 was 3.8% (modestly above the benchmark allocation).

Questions for the investment manager;

What is your view on the impact of a "no deal" Brexit on markets?

Your House View remains constructive on risk assets (such as equities) but with caution and with a more subdued outlook for returns. In what ways is the portfolio evolving to take a more cautious view?

What areas of the market in particular are supportive of long term growth?

Performance Summary

		Renfrew CGF
6 Months (%)	Fund	9.5
	Benchmark	7.4
	Relative	1.9
12 Months (%)	Fund	8.0
	Benchmark	6.6
	Relative	1.3
3 years (%)	Fund	12.3
	Benchmark	11.5
	Relative	0.7
Since Inception (% p.a.) (1 July 2006)	Fund	7.3
	Benchmark	7.1
	Relative	0.1



Renfrewshire Council Common Good Funds





Hymans Robertson LLP

Appendix 1: Asset Allocation

Paisley Common Good Fund





Asset Allocation

31 March 2018

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	44.9%	-15.1% 
International Equities	20.0%	36.9%	16.9% 
UK Bonds	18.0%	13.0%	-5.0% 
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 Allocation





30 September 2018

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	43.2%	-16.8% 
International Equities	20.0%	37.8%	17.8% 
UK Bonds	18.0%	12.1%	-5.9% 
International Bonds	0.0%	3.1%	3.1% 
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	3.8%	1.8%
Total	100.0%	100.0%	0.0%

Renfrew Common Good Fund





Asset Allocation

31 March 2018

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	44.8%	-15.2% 
International Equities	20.0%	37.2%	17.2% 
UK Bonds	18.0%	13.0%	-5.0% 
International Bonds	0.0%	2.9%	2.9% 
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.1%	0.1%
Total	100.0%	100.0%	0.0%

Asset Allocation

30 September 2018

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	43.2%	-16.8% 
International Equities	20.0%	37.9%	17.9% 
UK Bonds	18.0%	12.1%	-5.9% 
International Bonds	0.0%	3.0%	3.0% 
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	3.8%	1.8%
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	Contribution to Relative Return
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	6 months %
UK Gov't Bonds	-2.1	-1.5	1.5	0.8	-0.1	0.0
Corporate Bonds	0.5	-0.4	0.9	0.2	0.0	0.1
International Bonds	-0.6	2.5	-0.5	1.1	0.0	-0.1
UK Equities	8.3	8.3	5.9	5.9	3.7	0.0
Overseas Equities	15.6	14.2	15.8	14.8	5.5	0.4
Total Assets	9.4	7.4	7.8	6.6		

Renfrew Common Good Fund

	6 months		12 months		Contribution to Absolute Return	Contribution to Relative Return
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	6 months %
UK Gov't Bonds	-2.1	-1.5	1.5	0.8	-0.1	0.0
Corporate Bonds	0.5	-0.4	2.1	0.2	0.0	0.1
International Bonds	-0.6	2.5	-0.6	1.1	0.0	-0.1
UK Equities	8.3	8.3	5.9	5.9	3.7	0.0
Overseas Equities	15.7	14.2	15.9	14.8	5.5	0.5
Total Assets	9.5	7.4	8.0	6.6		



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.