Item 4

Renfrewshire Council

To: Investment Review Board

On: 01 June 2016

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds six-month report to 31 March 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 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 Mike Connor (Private Client Head, 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*

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HYMANS ROBERTSON

Renfrewshire Council Common Good Funds

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

Prepared by:
David Millar- Senior Investment Analyst
Allison Galbraith - Investment Consultant

For and on behalf of Hymans Robertson LLP
May 2016

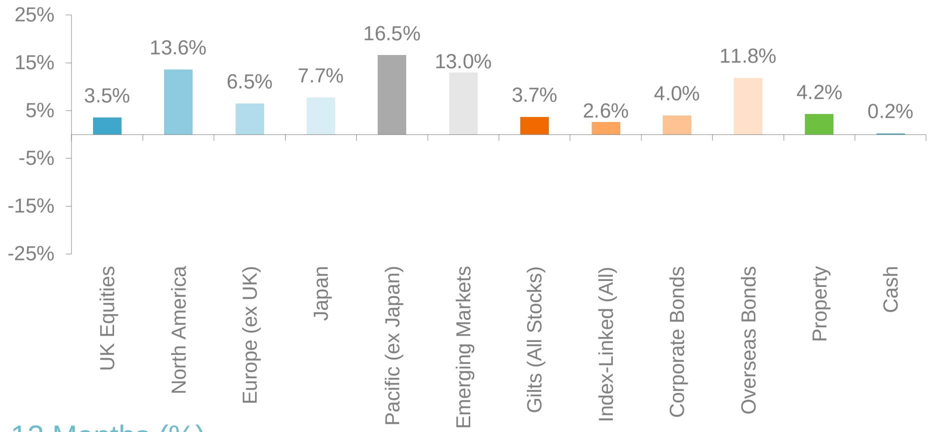
Contents

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.

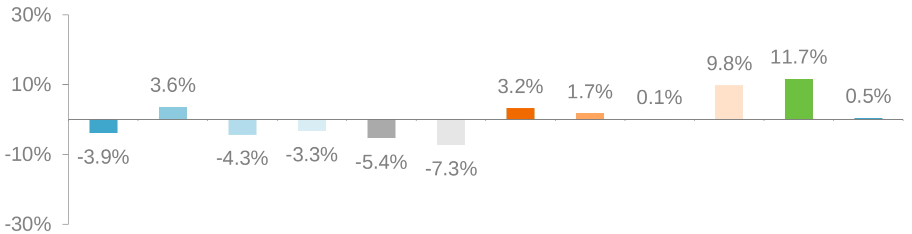
Hymans Robertson LLP, has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss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

Historic Returns for Worlds Markets to 31 March 2016

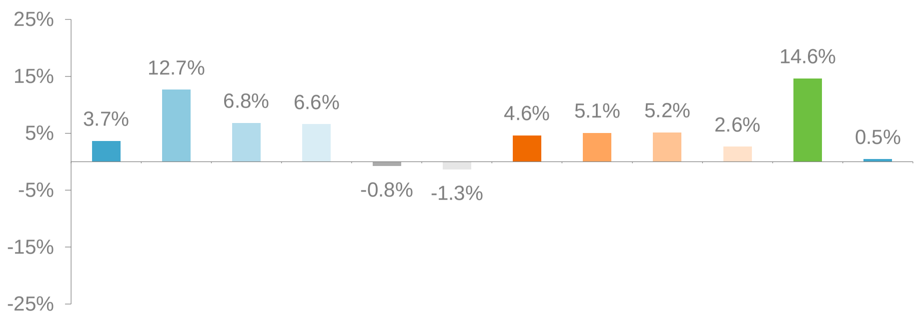
6 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comments

A strong equity rally during the fourth quarter of 2015 was followed by a panicky start to 2016 as investors grew more concerned over various issues, such as the impact of a potential slowdown in the Chinese and US economies and the continued collapse in oil prices. Nevertheless, the FTSE All World index managed to finish the period up 4.4%. As a result of weakness in sterling, the return for unhedged UK investors was over 11%.

Global GDP growth in 2015 was a little lower than in 2014, falling short of forecasts at the start of the period. A similar pace is expected this year, but forecasts are again being trimmed.
The Federal Reserve did raise US interest rates in December, but seem in no hurry to do it again.
The Bank of England has made little effort to counter market conviction that UK interest rates will not be rising in 2016. Both the Bank of Japan and European Central Bank expanded existing quantitative easing programmes and cut official deposit rates below zero and further below zero, respectively.

Subdued growth and inflation provided a helpful background for the major government bond markets, particularly in the first quarter of 2016, when 10-year gilt yields fell back to their lows of January 2015. The background was less supportive of corporate bond markets, which underperformed equivalent government bonds over the period.
UK property continued to rally. The IPD Monthly Index returned 4.2% over the period.

Key events during the 6 months included:

Global Economy

- December's rise in US interest rates was the first for nearly 10 years.
- The Bank of England expects headline CPI inflation to stay below 1% p.a. throughout 2016.
- Monetary policy was loosened further in Japan and the Eurozone.
- Brent crude fell to a 12-year low of $28 per barrel in January.
- Slowdown in the Chinese economy continued as GDP growth fell below 7% for the first time since 2009.

Equities

- The strongest sectors relative to the FTSE All World Index were Technology (+5.3%) and Telecommunications (+5.1%); the weakest were Financials (-6.3%) and Health Care (-4.7%).
- N America was the best performing region, despite disappointing US corporate earnings; Japan was the worst, undermined by yen strength in 2016.

Bonds and currencies

- Sterling depreciated against the dollar, yen and euro. As the EU referendum approached, its trade-weighted index fell to its lowest level since 2013.
- Yield spreads over gilts on sterling investment-grade corporate bonds reached their highest level

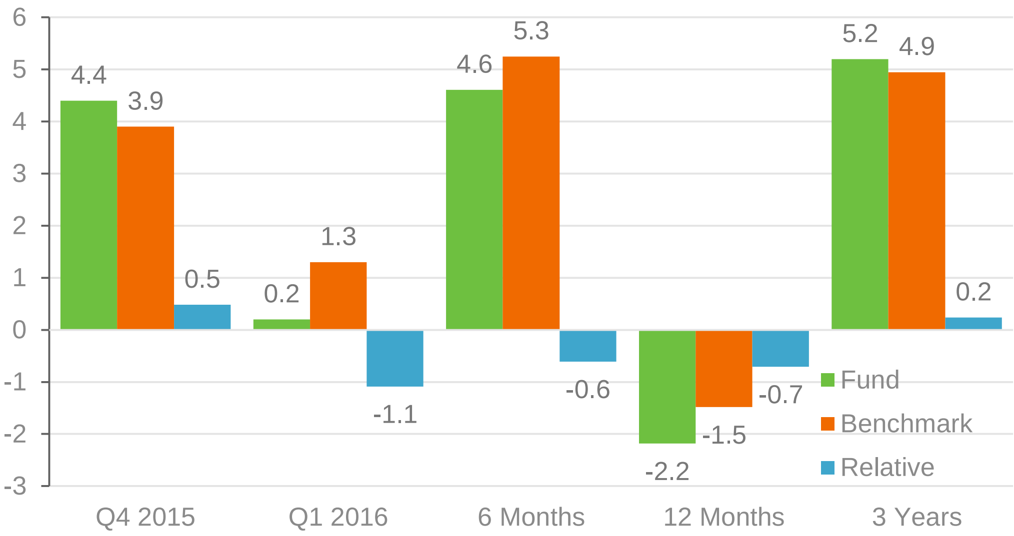
Paisley Common Good Fund: Portfolio Summary

Valuation Summary

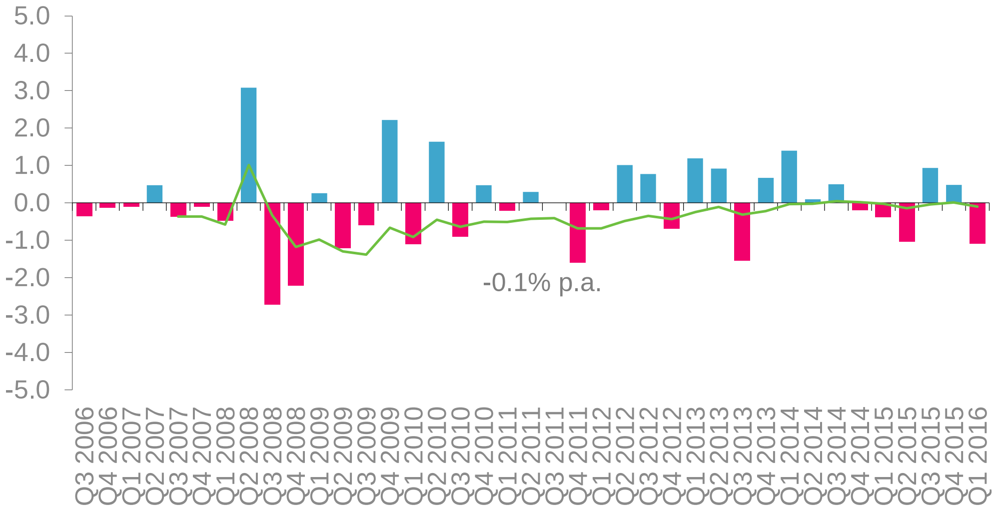
	Values (£m)		Actual Proportion	Target Proportion	Difference	(Standard Life) Estimated Annual Income			Target
	30/09/2015	31/03/2016	%	%	%	30/09/2015	30/12/2015	31/03/2016	
UK Equities	1.560	1.633	48.0	60.0	-12.0				
International Equities	1.094	1.177	34.6	20.0	14.6				
UK Bonds	0.536	0.441	13.0	18.0	-5.0				
International Bonds	0.040	0.114	3.3	0.0	3.3				
Property	0.000	0.000	0.0	0.0	0.0				
Cash/Other	0.081	0.039	1.2	2.0	-0.8				
Total	**3.311**	**3.404**	**100.0%**	**100.0%**		**£130,067**	**£134,711**	**£132,171**	**£102,700**

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

Performance Summary



Relative Quarterly and Relative Cumulative Performance



Renfrew Common Good Fund: Portfolio Summary

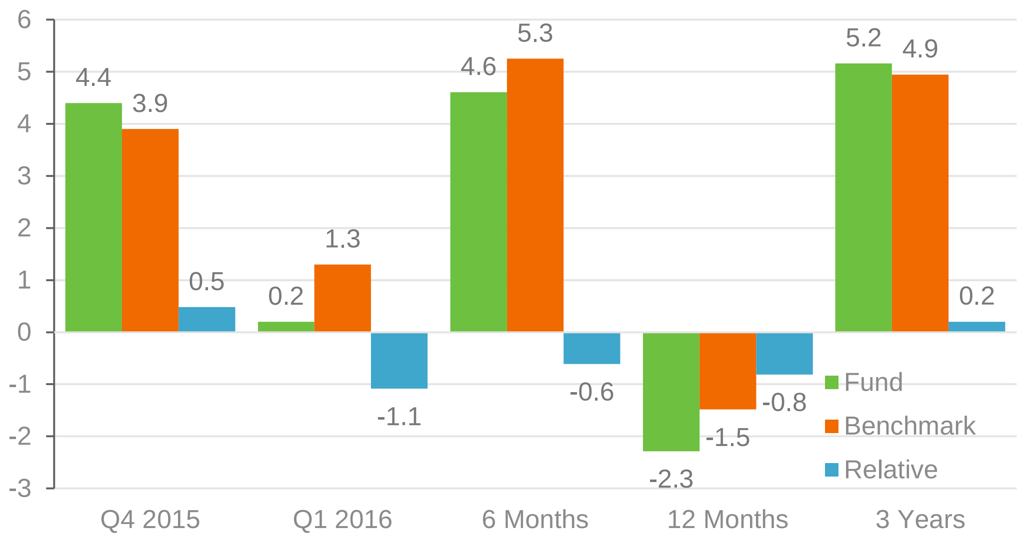
Valuation Summary

	Values (£m)		Actual Proportion	Target Proportion	Difference
	30/09/2015	31/03/2016	%	%	%
UK Equities	5.240	5.495	47.9	60.0	-12.1
International Equities	3.704	3.992	34.8	20.0	14.8
UK Bonds	1.807	1.494	13.0	18.0	-5.0
International Bonds	0.135	0.379	3.3	0.0	3.3
Property	0.000	0.000	0.0	0.0	0.0
Cash/Other	0.272	0.120	1.0	2.0	-1.0
Total	**11.158**	**11.480**	**100.0%**	**100.0%**	

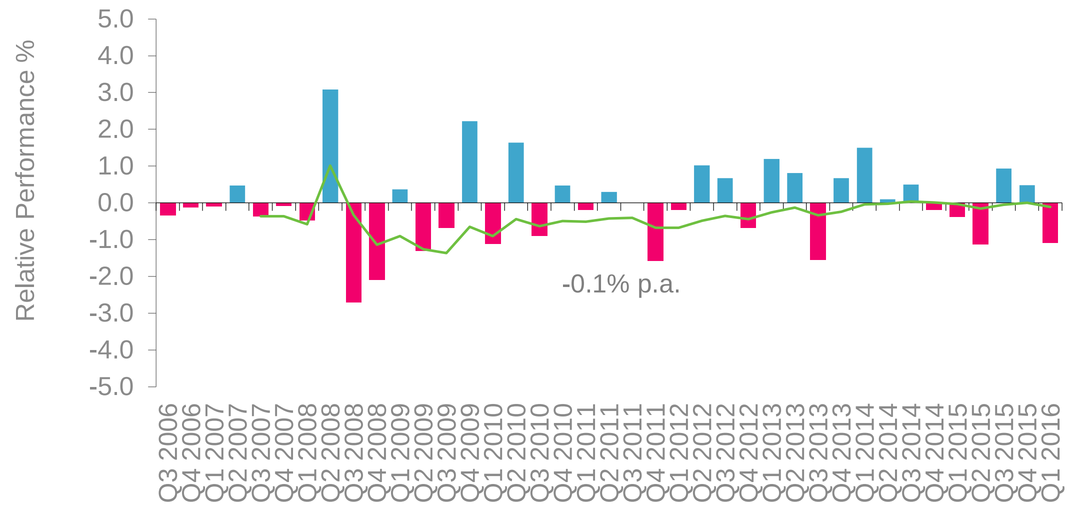
(Standard Life) Estimated Annual Income			Target
30/09/2015	30/12/2015	31/03/2016	
£442,878	**£453,419**	**£ 445,136.00**	**£346,000**

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 4.6% between end September 2015 (the effective date of the immediately preceding report) and end March 2016; over the same period, the benchmark achieved a return of 5.3%.
Since the inception of the mandate, on 1 July 2006, the Fund return, +5.9% p.a., is marginally below that of the benchmark, +6.0% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end March 2016, the allocation to equities (82.6%) 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 16.3% at end March 2016 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2016 was 1.2% (0.8% below the benchmark allocation) compared with 2.4% at the end of September 2015.

Over the whole 6 month period, equities performed strongly (despite their sharp falls in January). Within the equity portfolio, overseas equities performed more strongly than UK equities, so the overweight to overseas equities was beneficial in absolute terms. The strong portfolio return of 4.6% was modestly behind the benchmark return and was attributable, in the main, to underperformance of the Fund's overseas equity component relative to its benchmark.

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) and these performed less strongly than UK gilts over the 6 month period. Therefore although providing a positive absolute return over 6 months, the bond return was below benchmark.

Questions for the investment manager;
A notable theme in the equity holdings is "focus on change", how is this evidenced in the portfolio and how has it helped returns recently (and how will it help looking forward)?
Given the levels of equity markets, where does the manager see value (Emerging Markets?) and how will the manager cope in a potentially "lower returns" environment.
How much of a threat does the Chinese economy pose to world markets?
International bond performance has been less successful albeit they represent a small part of the portfolio, what action is the manager taking to address this?
What is your policy regarding investment in Far East and emerging markets? Opportunity, or an area to avoid?
The manager still sees little value in UK gilts, what would trigger a change in view?

Performance Summary

		Paisley CGF
6 Months (%)	Fund	4.6
	Benchmark	5.3
	Relative	-0.6
12 Months (%)	Fund	-2.2
	Benchmark	-1.5
	Relative	-0.7
3 years (%)	Fund	5.2
	Benchmark	4.9
	Relative	0.2
Since Inception (% p.a.) (1 July 2006)	Fund	5.9
	Benchmark	6.0
	Relative	-0.1

Renfrew Common Good Fund: Allocation and Performance

Commentary on Renfrew Common Good Fund

The Fund, in aggregate, returned 4.6% between end September 2015 (the effective date of the immediately preceding report) and end March 2016; over the same period, the benchmark achieved a return of 5.3%.
Since the inception of the mandate, on 1 July 2006, the Fund return, +5.9% p.a., is marginally below that of the benchmark, +6.0% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end March 2016, the allocation to equities (82.7%) 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 16.3% at end March 2016 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2016 was 1.0% (1.0% below the benchmark allocation) compared with 2.4% at the end of September 2015.

Over the whole 6 month period, equities performed strongly (despite their sharp falls in January). Within the equity portfolio, overseas equities performed more strongly than UK equities, so the overweight to overseas equities was beneficial in absolute terms. The strong portfolio return of 4.6% was modestly behind the benchmark return and was attributable, in the main, to underperformance of the Fund's overseas equity component relative to its benchmark.

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) and these performed less strongly than UK gilts over the 6 month period. Therefore although providing a positive absolute return over 6 months, the bond return was below benchmark.

Questions for the investment manager;
A notable theme in the equity holdings is "focus on change", how is this evidenced in the portfolio and how has it helped returns recently (and how will it help looking forward)?
Given the levels of equity markets, where does the manager see value (Emerging Markets?) and how will the manager cope in a potentially "lower returns" environment.
How much of a threat does the Chinese economy pose to world markets?
International bond performance has been less successful albeit they represent a small part of the portfolio, what action is the manager taking to address this?
What is your policy regarding investment in Far East and emerging markets? Opportunity, or an area to avoid?
The manager still sees little value in UK gilts, what would trigger a change in view?

Performance Summary

		Renfrew CGF
6 Months (%)	Fund	4.6
	Benchmark	5.3
	Relative	-0.6
12 Months (%)	Fund	-2.3
	Benchmark	-1.5
	Relative	-0.8
3 years (%)	Fund	5.2
	Benchmark	4.9
	Relative	0.2
Since Inception (% p.a.) (1 July 2006)	Fund	5.9
	Benchmark	6.0
	Relative	-0.1

Appendix 1: Asset Allocation

Paisley Common Good Fund

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%

Asset Allocation 31 March 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%

Renfrew Common Good Fund

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%

Asset Allocation 31 March 2016

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%

Appendix 2: Performance by Asset Class

Renfrew Common Good Fund

	3 months		12 months	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Gov't Bonds	6.3	4.9	5.0	3.2
International Bonds	-4.8	9.5	-17.4	9.3
UK Equities	-0.4	-0.4	-1.4	-3.9
Overseas Equities	0.1	3.2	-4.1	0.4
Total Assets	0.2	1.3	-2.2	-1.5

Paisley Common Good Fund

	3 months		12 months	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Gov't Bonds	6.3	4.9	4.8	3.2
International Bonds	-4.8	9.5	-17.4	9.3
UK Equities	-0.4	-0.4	-1.4	-3.9
Overseas Equities	0.1	3.2	-4.1	0.4
Total Assets	0.2	1.3	-2.3	-1.5

Appendix 3: Explanation of Performance Calculations

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - 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.