

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.
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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 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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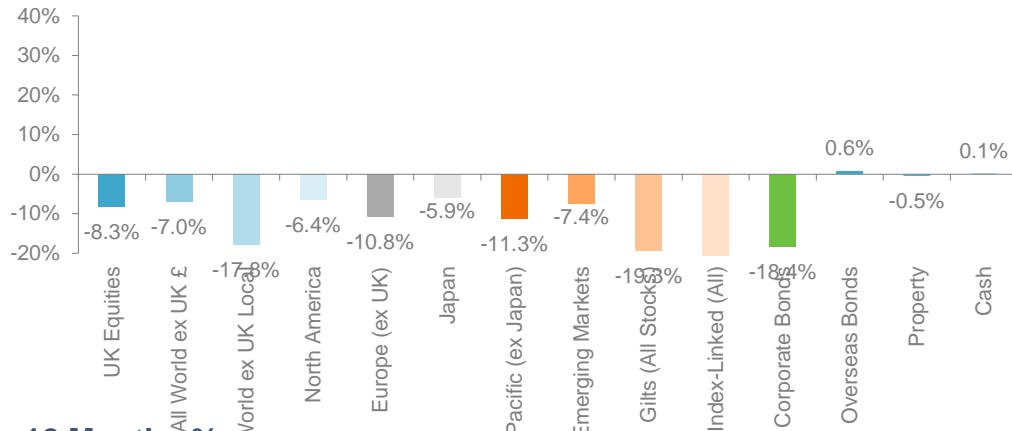
Renfrewshire Council Common Good Funds

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

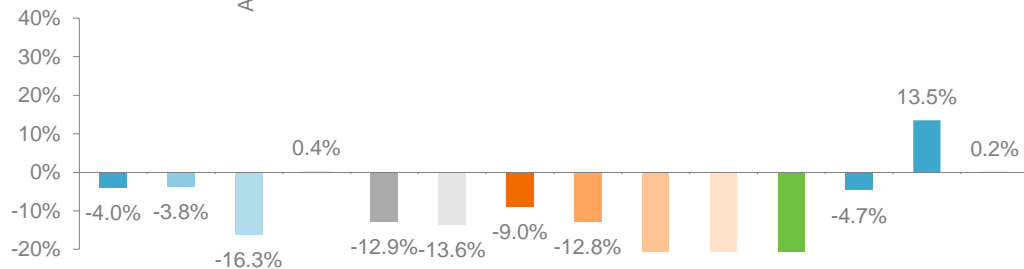
Kameel Kapitan, Investment Consultant

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

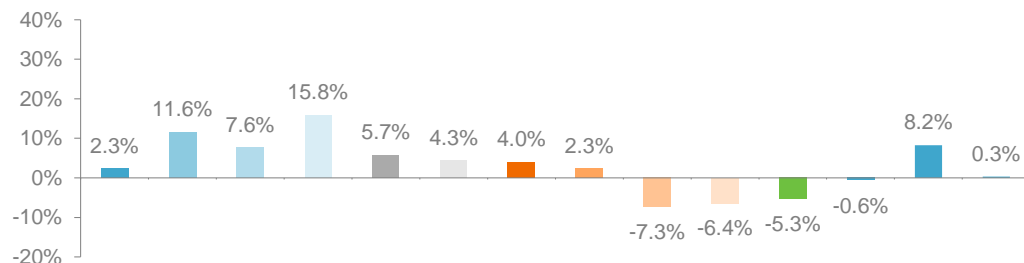
6 Months %



12 Months %



3 Years % p.a.



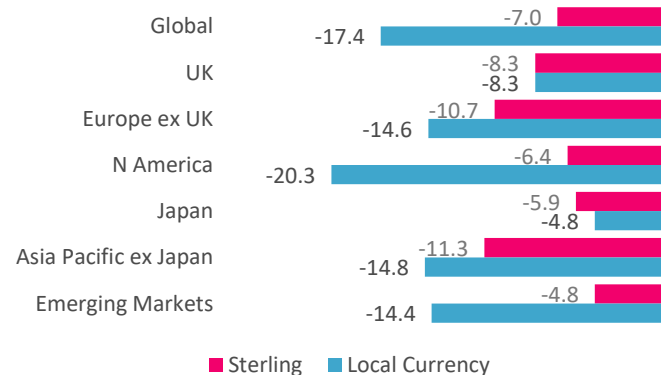
The 6 month period to end September 2022 was particularly challenging for investment markets, with economic momentum slowing as higher borrowing costs and soaring inflation squeezed consumer's real incomes. Combined with the prospect of tighter financial conditions, these aspects have given rise to fears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

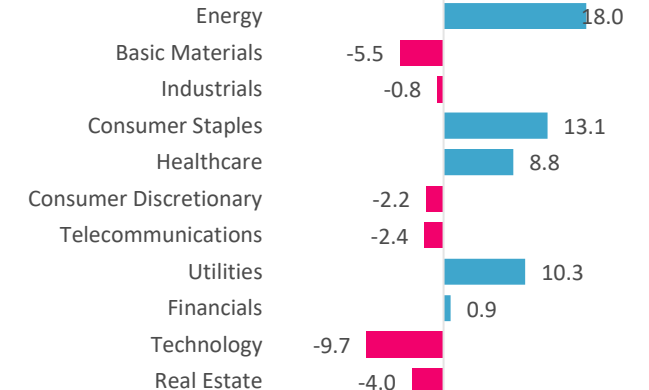
Regionally, the tech-heavy US equity market underperformed, albeit the strengthening dollar will have helped moderate to a degree returns for UK investors. European markets also lagged as markets priced in a larger impact of Russia's invasion of Ukraine on continental Europe. Above average exposure to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

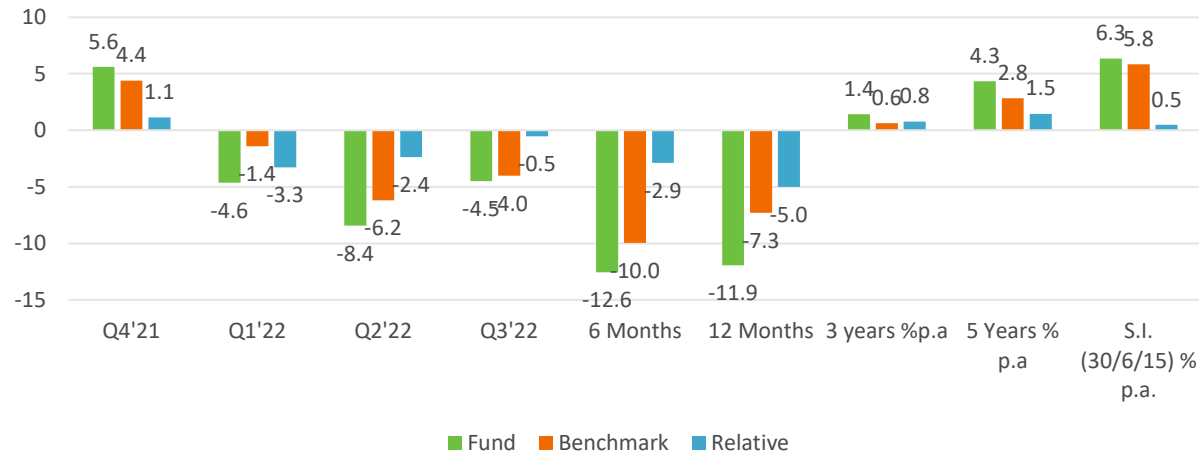
	Value (£m)		Proportions		Difference
	31/03/2022	30/09/2022	Actual %	Benchmark %	
UK Equity	1.71	1.73	38.2%	60.0%	-21.8%
Overseas Equity	2.73	2.17	48.2%	20.0%	28.2%
Total Equity	4.44	3.90	86.4%	80.0%	6.4%
UK Government Bonds	0.28	0.28	6.2%	18.0%	-11.8%
UK Non Government Bonds	0.28	0.16	3.5%		3.5%
International 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

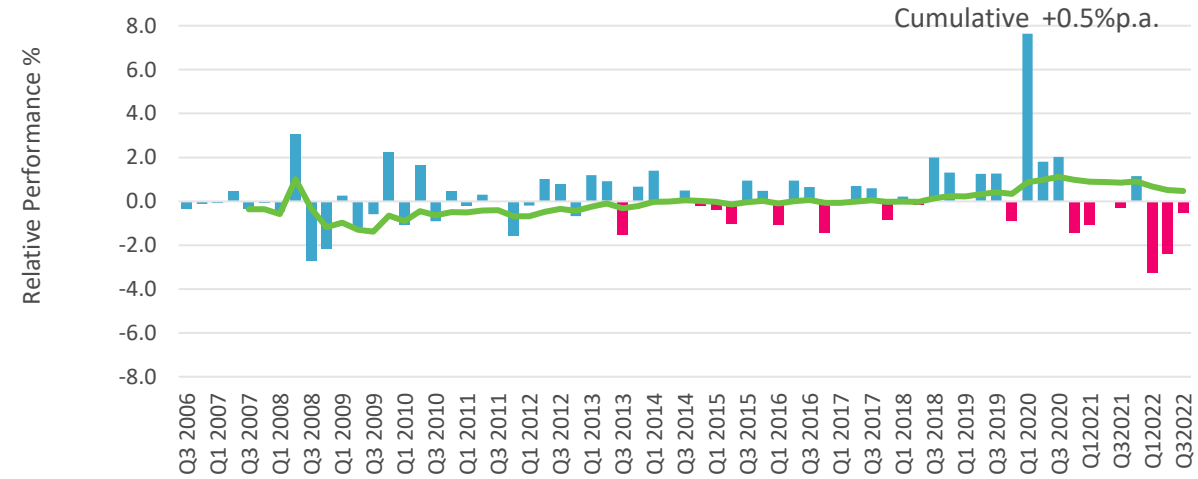
(Standard Life) Estimated Annual Income

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

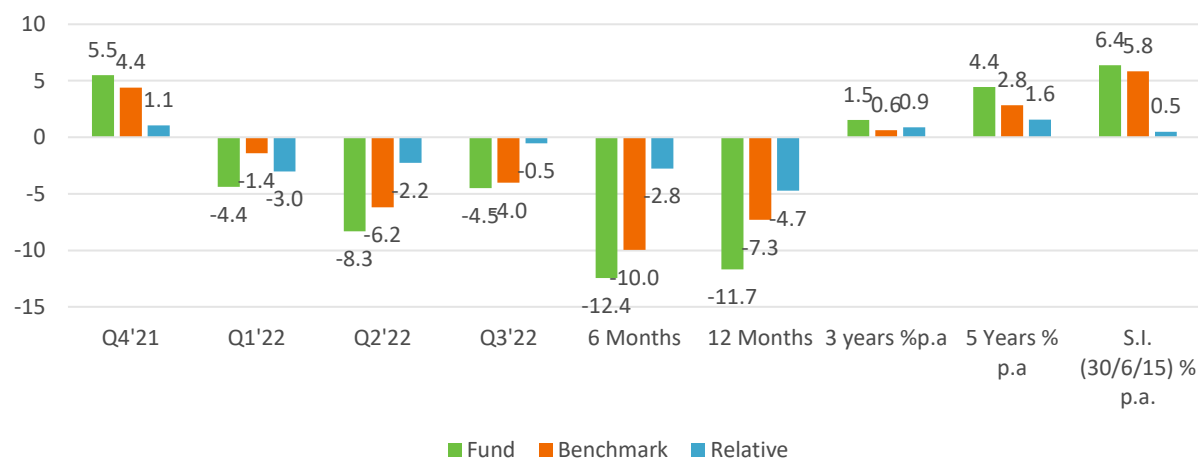
Valuation

	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			

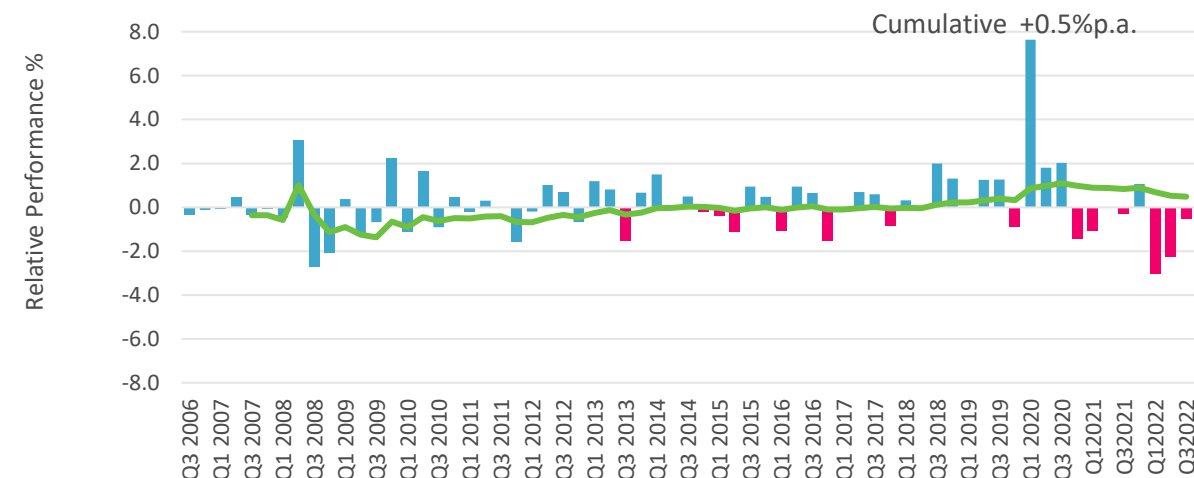
Income

(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 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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