

# Renfrewshire Council Common Good Funds

Review of Investment Managers'  
Performance for the 6 months to 31 March  
2023

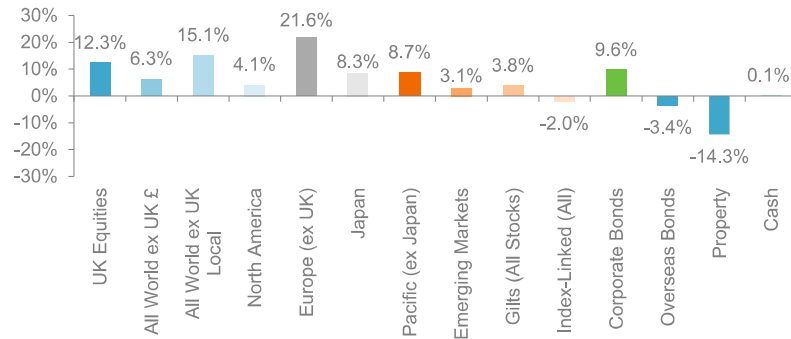
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Keziah Nathania, Investment Analyst

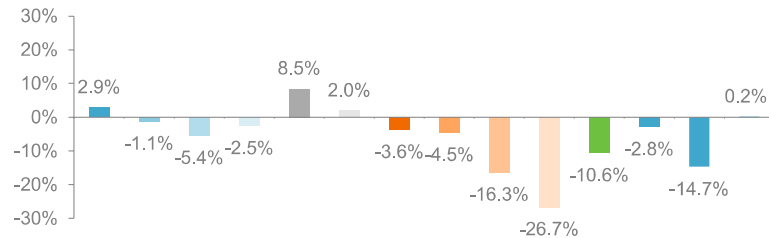


## Market Background – 6 Months to 31 March 2023<sup>[1]</sup>

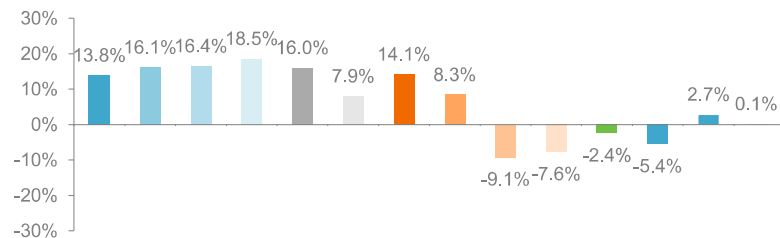
### 6 Months %



### 12 Months %



### 3 Years % p.a.



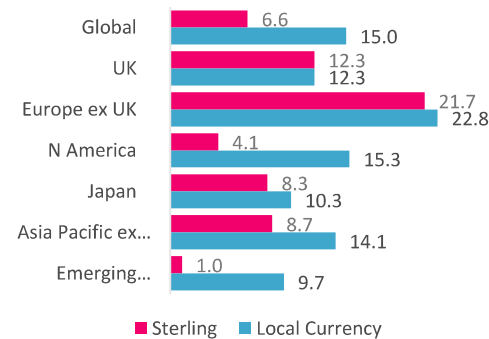
Global growth exceeded expectations in the six months to end-March 2023, fuelled by falling energy prices and a robust labour market. This has led to upwards revisions to 2023 GDP forecasts in most developed economies. However, the quarter-on-quarter pace of global growth is expected to ease from here as the lagged impact of prior interest rate rises weighs on activity and the boost from China's re-opening fades, leaving 2023 full year growth below long-term average levels.

UK 10-year gilt yields fell to 3.5% p.a., with March bond rallies driven by banking sector concerns. US yields decreased to 3.5% p.a., while German yields increased to 2.3% p.a. UK 10-year implied inflation dropped to 3.6% p.a. Credit markets saw positive returns as both sovereign bond yields and credit spreads declined, with global investment grade credit spreads at 1.5% p.a. and speculative-grade credit spreads at 5.0% p.a.

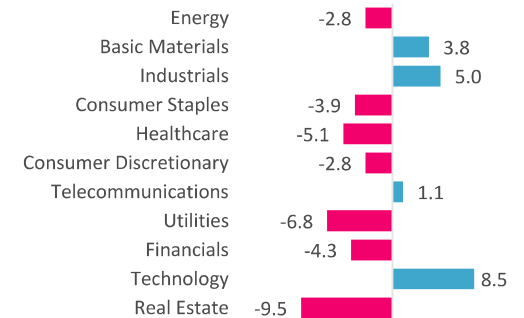
Global equities rose 15.0%, supported by better-than-expected economic data, falling inflation and energy prices. Growth stocks outperformed value stocks, as falling bond yields supported the former while the latter were weighed down by stresses in the banking sector and a significant hit to bank shares in March. By sector, technology, industrials, and basic materials were the best performing sectors, while utilities, healthcare and financials lagged furthest behind.

European equities notably outperformed as falling gas prices led to an improvement in consumer and business sentiment. Japanese equities underperformed on the back of yen strength and doubts over ongoing monetary support from the Bank of Japan.

### Regional Equity Returns % <sup>[2]</sup>



### Global Equity Sector Returns % <sup>[3]</sup>



Source: DataStream. <sup>[1]</sup> 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. <sup>[2]</sup> FTSE All World Indices. Commentary compares regional equity returns in local currency. <sup>[3]</sup> 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
	30/09/2022	31/03/2023	Actual %	Benchmark %	
UK Equity	1.53	1.64	34.6%	60.0%	-25.4%
Overseas Equity	2.17	2.30	48.5%	20.0%	28.5%
Total Equity	3.71	3.94	83.1%	80.0%	3.1%
UK Government Bonds	0.28	0.33	7.0%	18.0%	-11.0%
UK Non Government Bonds	0.16	0.29	6.2%		6.2%
International Bonds	0.09	0.09	1.9%		1.9%
Total Bonds	0.53	0.71	15.1%	18.0%	-2.9%
Cash	0.28	0.08	1.8%	2.0%	-0.2%
Total	4.51	4.74			

## Income

(Standard Life) Estimated Annual Income	
30/09/2022	£155,401
31/12/2022	£155,343
31/03/2023	£148,221
Target	£125,000

## Performance



## Cumulative Performance



# Valuation and Performance - Renfrew Common Good Fund

## Valuation

	Value (£m)		Proportions		Difference
	30/09/2022	31/03/2023	Actual %	Benchmark %	
UK Equity	5.85	6.26	34.6%	60.0%	-25.4%
Overseas Equity	8.36	8.86	48.9%	20.0%	28.9%
Total Equity	14.21	15.13	83.5%	80.0%	3.5%
UK Government Bonds	1.07	1.26	7.0%	18.0%	-11.0%
UK Non Government Bonds	0.62	1.15	6.4%		6.4%
International Bonds	0.33	0.34	1.9%		1.9%
Total Bonds	2.02	2.76	15.2%	18.0%	-2.8%
Cash	1.02	0.23	1.3%	2.0%	-0.7%
Total	17.25	18.11			

## Income

(Standard Life) Estimated Annual Income	
30/09/2022	£597,182
31/12/2022	£597,390
31/03/2023	£570,598
Target	£475,000

## Performance



## Cumulative Performance



## Commentary

In the six months leading up to March 2023, the Paisley and Renfrew funds achieved positive returns of 6.1% and 6.2% respectively, but trailed behind the benchmark return of 9.5%. Both quarters contributed to the overall positive outcome - a Q4 2022 return of c.2.1/2.2%, followed by c.3.9% in Q1 2023.

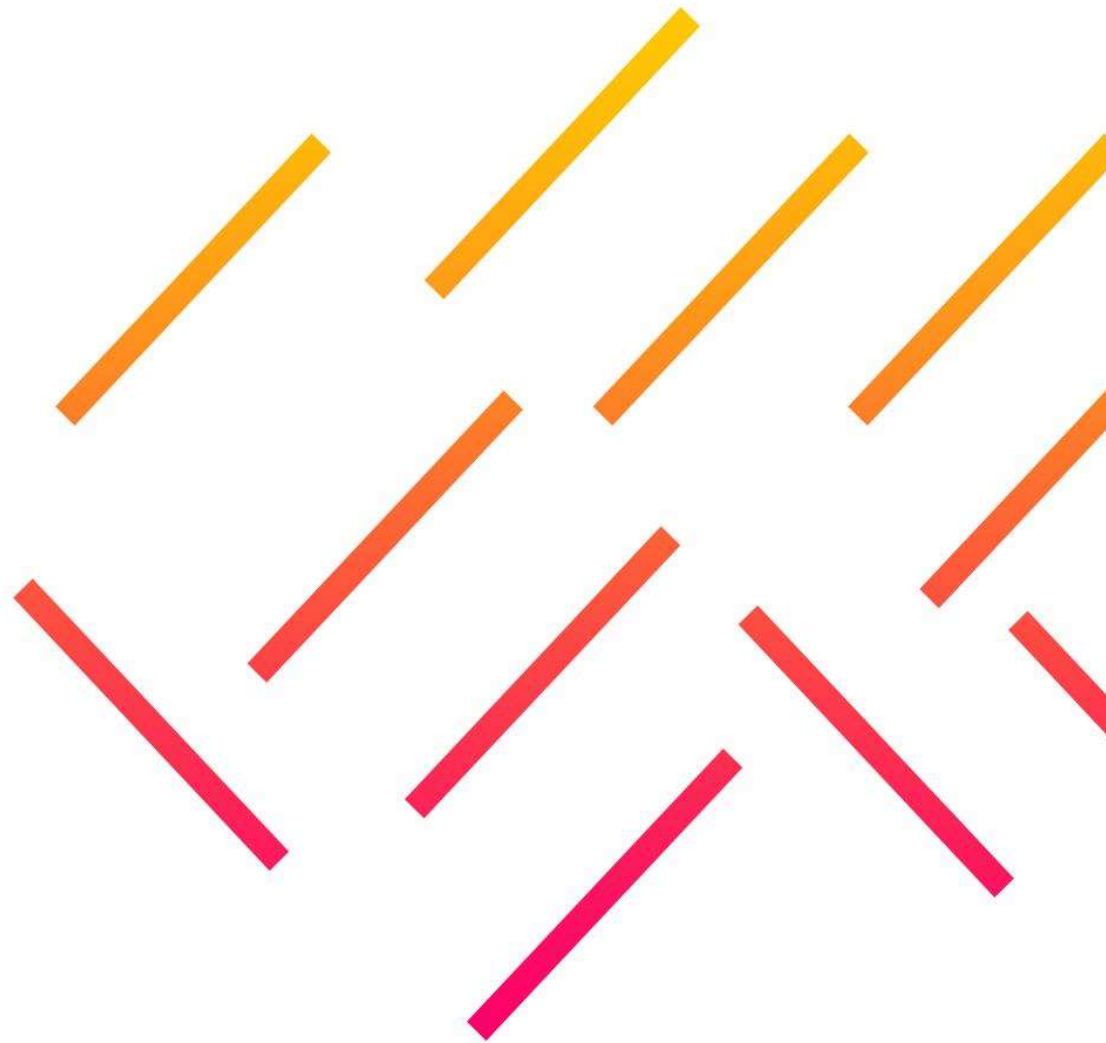
Both UK and overseas bonds demonstrated strong performance throughout both quarters, indicating a market recovery following one of the most challenging years on record. Inflation showed signs of slowing down after recent rate hikes, leading to expectations of fewer rate hikes in the foreseeable future. Both UK and global equity markets mirrored this upward trend, rebounding from the turbulence experienced in 2022. The resumption of economic activities in China, a major market for Europe, further bolstered market sentiment. Despite incidents of bank collapses like SVB and Credit Suisse in March, the overall market displayed great resilience, with central banks promptly reassuring that these collapses should not trigger a recurrence of events akin to the Global Financial Crisis of 2008.

The underperformance against the benchmark during the 6-month period was primarily driven by Q422 performance. Despite achieving an absolute positive return, the overweight allocation to overseas equities compared to the benchmark had a negative impact. This was exacerbated by the strengthening of Sterling in Q422 following a significant dip in previous quarters, resulting in reduced returns for unhedged UK investors. However, it is worth noting that this positioning has proven beneficial over the longer term, considering the relatively weaker performance of UK equities compared to other regions. Moreover, the overweight stance on equities versus bonds as a whole has been advantageous, given the outperformance of equities over the 6-month period compared to bonds.

As of March 2023, the allocation to bonds stood at 15.1%, nearing the benchmark target of 18.0%. The excess cash holdings from the previous quarter were primarily allocated to corporate bonds, reflecting the manager's preference for this asset class over gilts. This strategic decision has proved advantageous, given that corporate bonds have outperformed gilts over the past 6 months, contributing to an overall positive performance.

Over the course of 12 months, the fund return has remained in negative territory, both in absolute and relative terms. The return of -c.7.0% has lagged behind the benchmark by c.5.7%, primarily due to underperformance in Q2 22 and Q4 22. Over the 3-year period, the returns remain positive at c.7.4% p.a., albeit slightly below the benchmark's return of c.9.9% p.a. On a longer-term perspective, since the inception of the mandate, the fund has delivered a strong return of 6.5% p.a., marginally ahead of the benchmark return of 6.2% p.a.

# Appendices



# Asset Allocation

## Paisley Common Good Fund

30/09/2022	Benchmark	Fund	Difference
UK Equity	60.0%	33.9%	-26.1%
Overseas Equity	20.0%	48.2%	28.2%
Total Equity	80.0%	82.1%	2.1%
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%	6.2%	4.2%
Total	100.0%	100.0%	

31/03/2023	Benchmark	Fund	Difference
UK Equity	60.0%	34.6%	-25.4%
Overseas Equity	20.0%	48.5%	28.5%
Total Equity	80.0%	83.1%	3.1%
UK Government Bonds	18.0%	7.0%	-11.0%
UK Non Government Bonds		6.2%	6.2%
International Bonds		1.9%	1.9%
Total Bonds	18.0%	15.1%	-2.9%
Cash	2.0%	1.8%	-0.2%
Total	100.0%	100.0%	

## Renfrew Common Good Fund

30/09/2022	Benchmark	Fund	Difference
UK Equity	60.0%	33.9%	-26.1%
Overseas Equity	20.0%	48.5%	28.5%
Total Equity	80.0%	82.4%	2.4%
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%	5.9%	3.9%
Total	100.0%	100.0%	

31/03/2023	Benchmark	Fund	Difference
UK Equity	60.0%	34.6%	-25.4%
Overseas Equity	20.0%	48.9%	28.9%
Total Equity	80.0%	83.5%	3.5%
UK Government Bonds	18.0%	7.0%	-11.0%
UK Non Government Bonds		6.4%	6.4%
International Bonds		1.9%	1.9%
Total Bonds	18.0%	15.2%	-2.8%
Cash	2.0%	1.3%	-0.7%
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*

	<b>Fund Performance</b>	<b>Benchmark Performance</b>	<b>Relative Performance</b>
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*

	<b>Fund Performance</b>	<b>Benchmark Performance</b>	<b>Relative Performance</b>
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.

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