

Notice of Meeting and Agenda Investment Review Board

Date	Time	Venue
Wednesday, 07 June 2023	11:00	Remotely via MS Teams,

MARK CONAGHAN
Head of Corporate Governance

Membership

Councillor John Shaw (Convener): Councillor Iain Nicolson (Depute Convener):

Councillor Alison Ann-Dowling: Councillor Jacqueline Cameron: Councillor David McGonigle:

Further Information - Online Meetings Only

This meeting is on-line only but is a meeting which is open to members of the public by prior arrangement. A copy of the agenda and reports for this meeting will be available for inspection prior to the meeting at the Customer Service Centre, Renfrewshire House, Cotton Street, Paisley and online at <http://renfrewshire.cmis.uk.com/renfrewshire/CouncilandBoards.aspx>

For further information, please email democratic-services@renfrewshire.gov.uk

Members of the Press and Public - contact details

Members of the press and public wishing to attend the meeting should contact democratic-services@renfrewshire.gov.uk to allow the necessary arrangements to be made.

Recording of Meeting

This meeting will be recorded for subsequent broadcast via the Council's internet site. If you have any queries regarding this please contact committee services on democratic-services@renfrewshire.gov.uk.

The recording can be accessed at the following link: <https://youtu.be/cRTjIQduBNq>

Items of business

Apologies

Apologies from members.

Declarations of Interest

Members are asked to declare an interest in any item(s) on the agenda and to provide a brief explanation of the nature of the interest.

- | | | |
|----------|-------------------------------------------------------------------------------------------|---------------|
| 1 | Minute of Previous Meeting | 1 - 4 |
| | Minute of previous meeting held on 16 November 2022. | |
| 2 | Paisley and Renfrew Common Good Funds six-month report to 31 March 2023 | 5 - 8 |
| | Report by Director of Finance & Resources. | |
| 3 | Paisley and Renfrew Common Good Funds: review of investment and income performance | 9 - 18 |
| | Report by the Director of Finance & Resources. | |

Minute of Meeting Investment Review Board

Date	Time	Venue
Wednesday, 16 November 2022	11:00	Remotely by MS Teams,

Present: Councillor Alison Ann-Dowling, Councillor Jacqueline Cameron, Councillor David McGonigle, Councillor Iain Nicolson, Councillor John Shaw

In Attendance

C McCourt, Head of Finance & Business Services, G Borland, Principal Accountant, Capital Accounting, E Gray, Senior Committee Services Officer and J Barron, Assistant Committee Services Officer (all Finance & Resources).

Also in Attendance

K Kapitan and E Price, both Investment Consultants Hymans Robertson LLP, and G Brisbane, abrdn Capital Limited.

Recording of Meeting

Prior to the commencement of the meeting, the Convener intimated that this meeting of this Board would be recorded and that the recording would be available to watch on the Council's website.

Declarations of Interest

There were no declarations of interest intimated prior to the commencement of the meeting.

1 **Minute of Previous Meeting**

There was submitted the Minute of the meeting of the Investment Review Board held on 22 June 2022.

DECIDED: That the Minute be approved.

2 **Paisley and Renfrew Common Good Funds: review of investment and income performance**

There was submitted a report by the Director of Finance and Resources together with a presentation by K Kapitan from Hymans Robertson LLP, relative to the Paisley and Renfrew Common Good Funds, a review of investment income and the key issues pertaining thereto. G Brisbane, Head of Charities (Scotland) abrdn (formerly Aberdeen Standard Capital Limited) also provided a presentation relative to the Paisley and Renfrew Common Good fund investments performance.

The presentations referred to a review of the Investment Managers' performance for the six months to 30 September 2022; an update of markets; and the current economic climate.

DECIDED: That the report and presentations be noted.

3 **Paisley and Renfrew Common Good Funds: review of Investment Policy Statement**

There was submitted a report by the Director of Finance & Resources relative to the scope and content of the proposed Investment Policy Statement.

The Council had arranged for the investments of the Paisley and Renfrew Common Good Funds to be managed by abrdn Capital Limited, and had agreed with the manager a number of principles which would govern decisions regarding those investments.

The principles covered a range of issues, such as what benchmark should be employed against to assess the manager's performance and any restrictions the manager must observe in choosing sectors or classes of asset in which to invest. These requirements were formalised in an Investment Policy Statement, which was reviewed annually to ensure that the principles remain appropriate to the requirements of the Common Good Funds.

The Statement of Investment Policy was last reviewed in November 2021, and was due for review.

Confirmation was received that on 22 August 2022 both Paisley and Renfrew Common Good Funds had been de-registered from the Scottish Charities Register. The Investment Policy Statement had been updated to reflect this change.

DECIDED: That the Investment Policy Statement a copy of which was appended to the report, be approved as a replacement for the existing Statement of Investment Principles.



To: Investment Review Board

On: 07 June 2023

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 31 March 2023

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 31 March 2023. Hymans Robertson LLP will be represented at the meeting by David Watson (Investment Consultant), who will present his report to Members, and by Keziah Nathania. Mr Watson will also give a presentation covering an update on markets and the current economic climate.

1.3 Craig Joiner, 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.

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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 31 March
2023

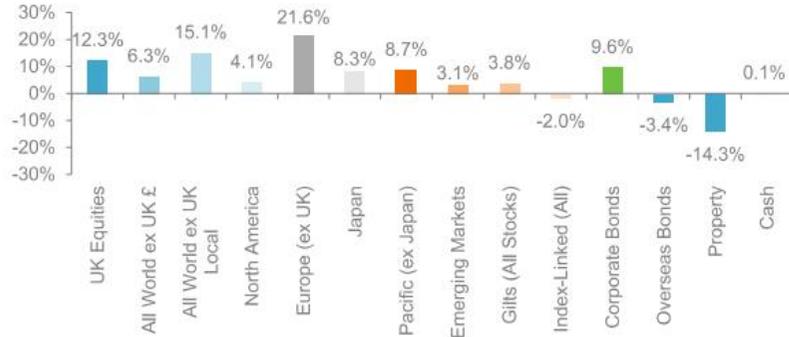
David Watson, Investment Research Associate Consultant

Keziah Nathania, Investment Analyst

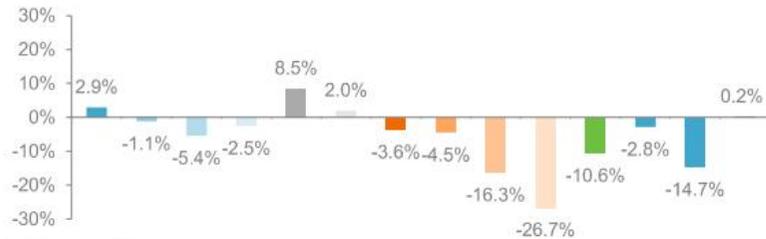
Hymans Robertson LLP is authorised and
regulated by the Financial Conduct Authority

Market Background – 6 Months to 31 March 2023^[1]

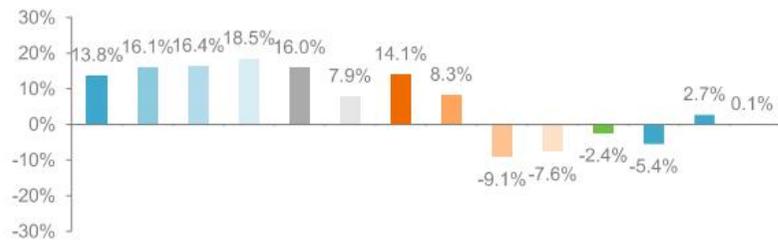
6 Months %



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.

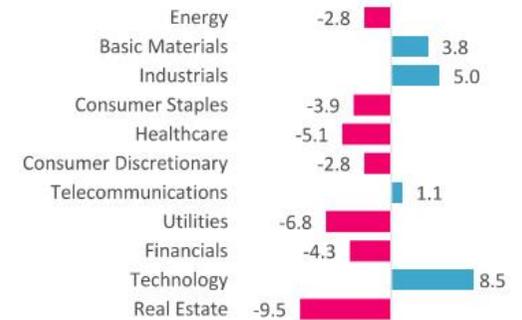
Global equities rose 15.0%, supported by better-than-expected economic data, falling inflation and energy prices. Growth stocks outperformed value stocks, as falling bond yields supported the former while the latter were weighed down by stresses in the banking sector and a significant hit to bank shares 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 % ^[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
	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			

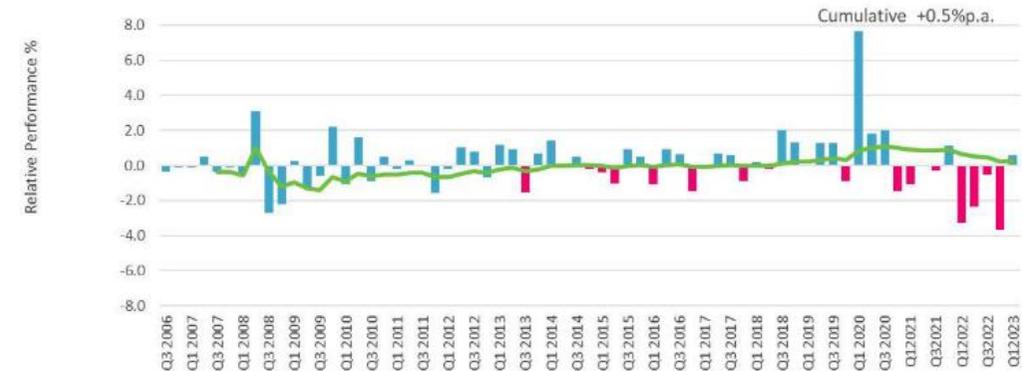
Income

	(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.

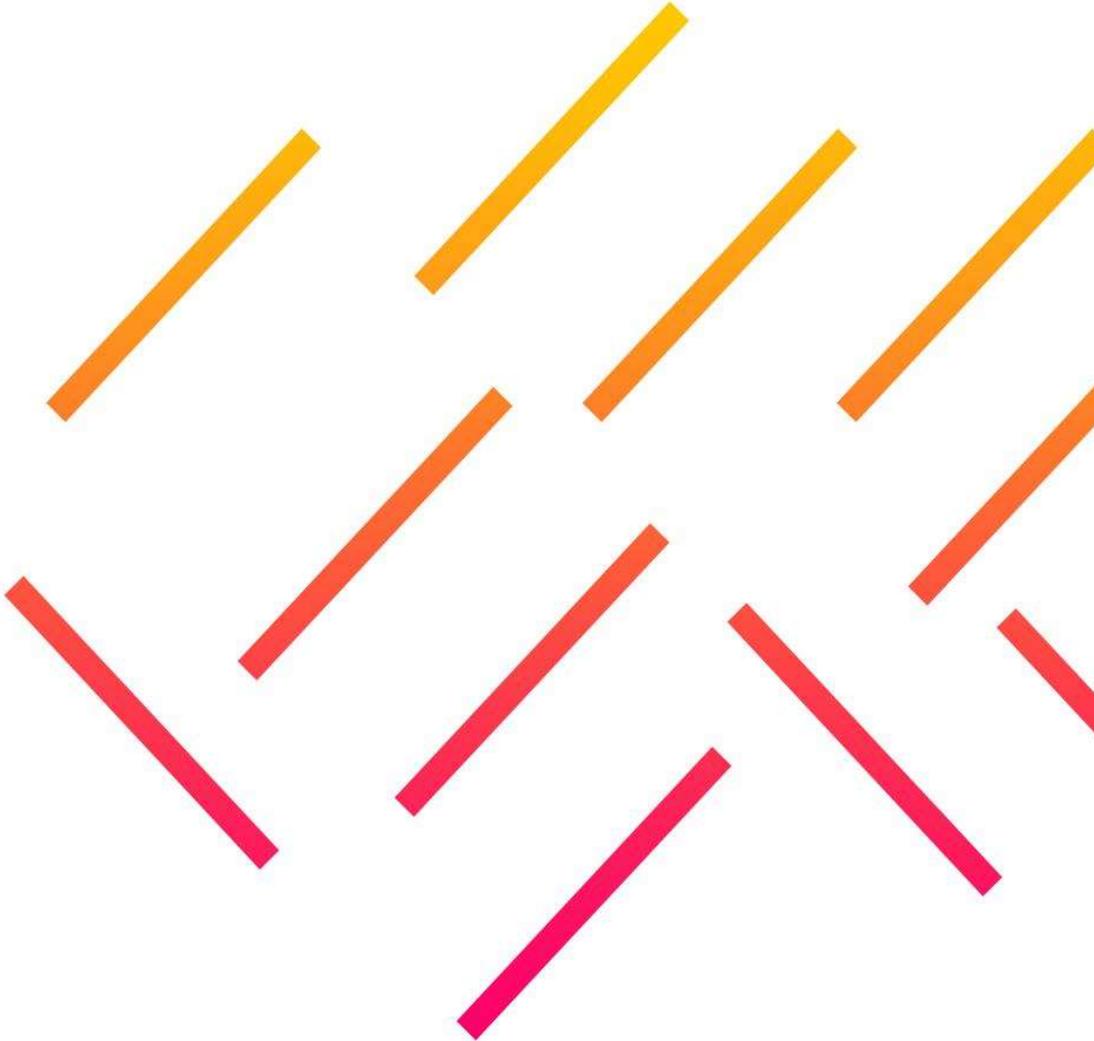
Both UK and overseas bonds demonstrated strong performance throughout both quarters, indicating a market recovery following one of the most challenging years on record. Inflation showed signs of slowing down after recent rate hikes, leading to expectations of fewer rate hikes in the foreseeable future. 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:

$$\left(\frac{1 + \text{Fund Performance}}{1 + \text{Benchmark Performance}} \right) - 1$$

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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