

To: Investment Review Board

On: 22 November 2023

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 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, LGT Wealth Management (formerly abrdn 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 2023. Hymans Robertson LLP will be represented at the meeting by David Watson (Investment Consultant), who will present his report to Members. Mr Watson will also give a presentation covering an update on markets and the current economic climate.

1.3 In February 2023 LGT Wealth Management announced an agreement with abrdn Capital Limited to acquire its discretionary fund management business in the UK and Jersey. This concluded in September 2023 and LGT assumed the client relationships of the acquired business, including investment management of the Paisley and Renfrew Common Good Funds. A novation is currently underway with the Council's legal and procurement departments to ensure the existing contract agreement made with abrdn Capital Limited is transferred to LGT Wealth Management.

- 1.4 Craig Joiner, Senior Charity Portfolio Manager, LGT Wealth Management, will give a short presentation during which there will be an opportunity for Members to ask questions in regard to the presentation, or the performance of the funds.
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2. **Recommendations**

- 2.1 To consider the attached report and presentation from Hymans Robertson LLP and the presentation by LGT Wealth Management.
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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** – novation of the existing investment management contract with abrdn to LGT Wealth Management is underway.
10. **Risk** – none

11. **Privacy Impact** – none
 12. **COSLA Policy Position** – none
 13. **Climate Risk** – none
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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 2023

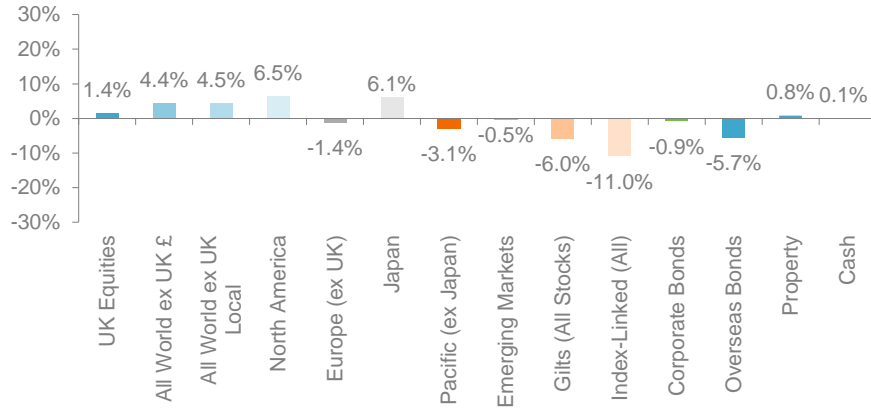
David Watson, Investment Research Associate Consultant

Keziah Nathania, Investment Analyst

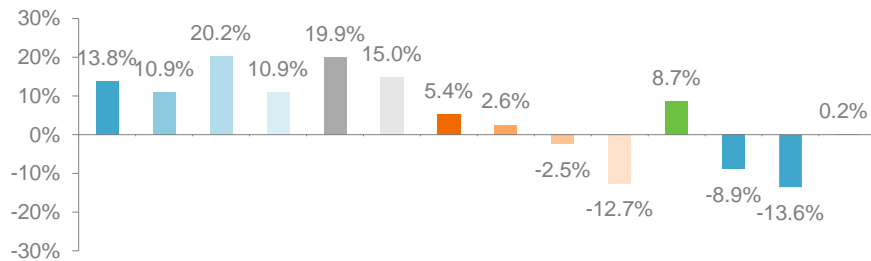


Market Background – 6 Months to 30 September 2023^[1]

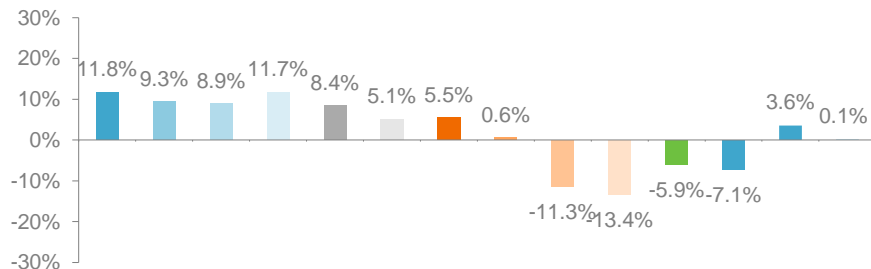
6 Months %



12 Months %



3 Years % p.a.



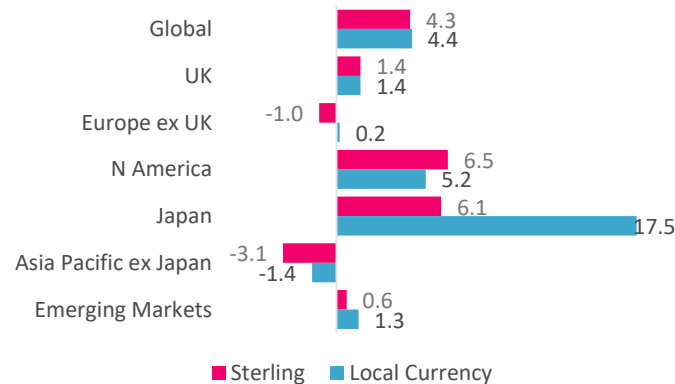
Global growth has slowed in 2023 versus 2022, but less than expected. Pandemic-era savings, fiscal support, and tight labour markets have all supported consumer spending. This, and a normalisation of post-pandemic spending, has buoyed service-sector activity. However, the more energy and rate-sensitive manufacturing sector has been contracting, and survey indicators suggest overall global activity weakened in Q3, as services 'caught down' to manufacturing.

UK and US 10-year yields rose around 1.0% p.a., to 4.5% p.a. and 4.6% p.a., respectively, while German yields rose 0.5% p.a., to 2.8% p.a. UK 10-year implied inflation rose 0.1% p.a., to 3.7% p.a. UK investment grade credit returned -0.9% p.a. over the 6 months to end-September as the rise in underlying gilt yields more than offset a 0.3% p.a. fall in credit spreads. Global investment grade credit spreads fell 0.2% p.a., to 1.3% p.a., while speculative grade credit spreads narrowed 0.6% p.a. to 4.4% p.a.

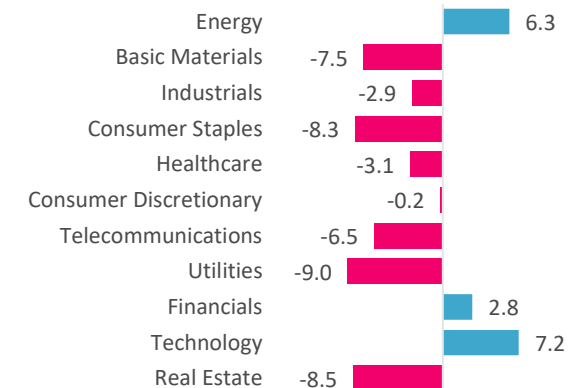
Global equities rose 4.4% in local currency terms. Japanese equities notably outperformed as the exporter-heavy index benefited from Yen weaknesses. North American equities modestly outperformed, given above average exposure to the technology sector.

Despite its exposure to outperforming energy sector, the UK market underperformed. Europe ex-UK underperformed given a weak domestic and external backdrop for the manufacturing-intensive economy. Disappointing Chinese activity data and turmoil in the property sector, weighted on emerging markets and Asia Pacific ex-Japan, with the latter being the worst performing region.

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

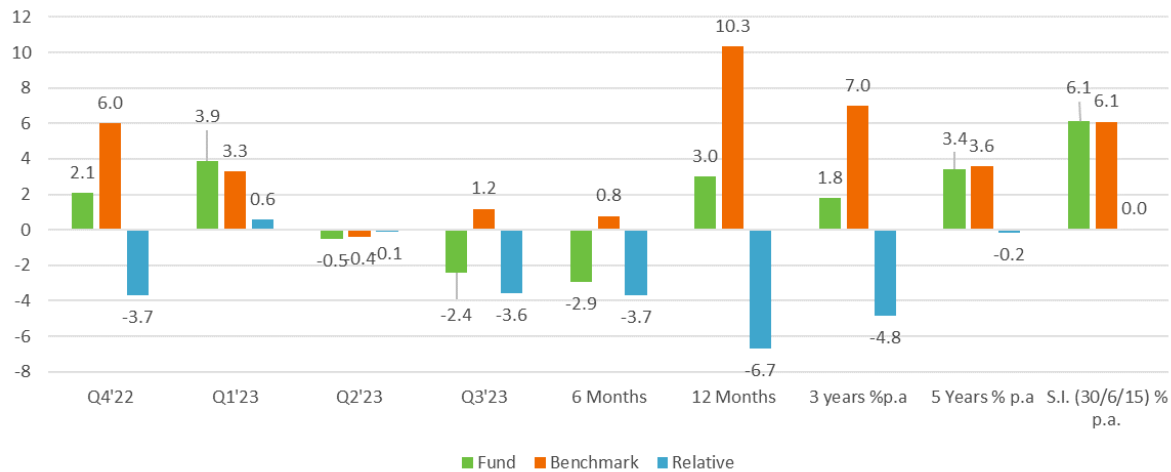
Valuation

	Value (£m)		Proportions		Difference
	31/03/2023	30/09/2023	Actual %	Benchmark %	
UK Equity	1.64	1.28	28.3%	60.0%	-31.7%
Overseas Equity	2.30	2.28	50.4%	20.0%	30.4%
Total Equity	3.94	3.56	78.7%	80.0%	
UK Government Bonds	0.33	0.42	9.2%	18.0%	-1.3%
UK Non Government Bonds	0.29	0.39	8.7%		-8.8%
International Bonds	0.09	0.09	1.9%		8.7%
Total Bonds	0.71	0.89	19.8%	18.0%	1.9%
Cash	0.08	0.07	1.5%	2.0%	1.8%
Total	4.74	4.52			-0.5%

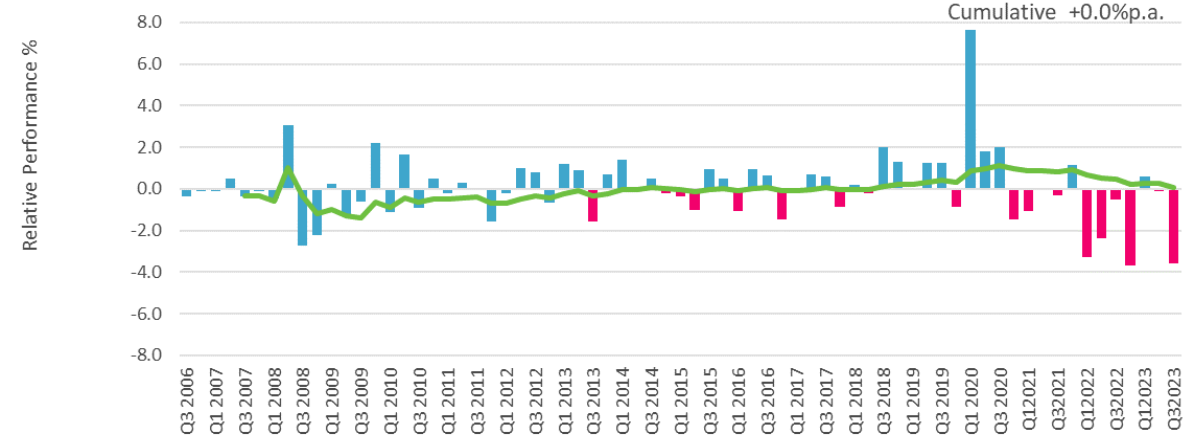
Income

(Standard Life) Estimated Annual Income	
31/03/2023	£148,221
30/06/2023	£145,701
30/09/2023	£143,538
Target	£125,000

Performance



Cumulative Performance



Valuation and Performance - Renfrew Common Good Fund

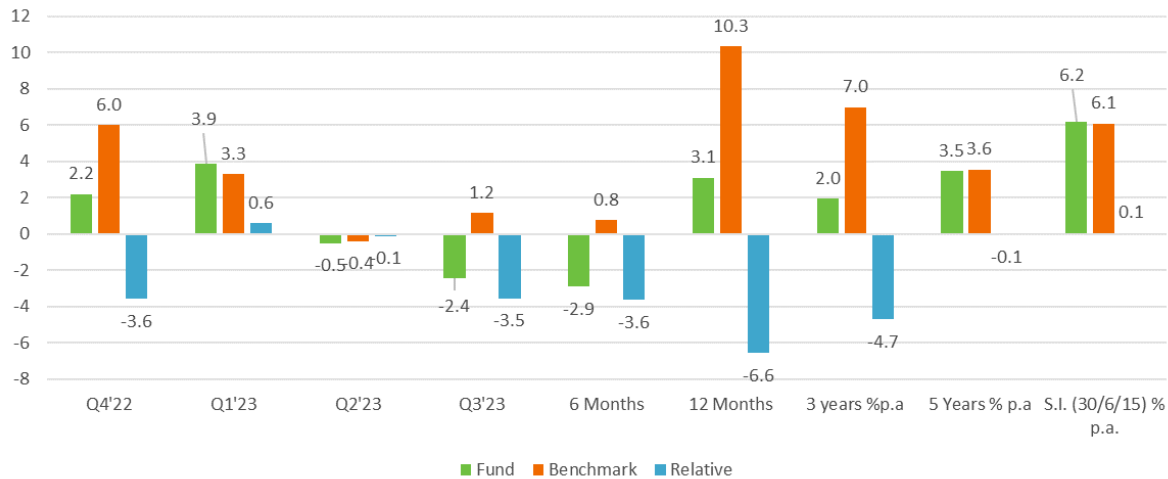
Valuation

	Value (£m)		Proportions		Difference
	31/03/2023	30/09/2023	Actual %	Benchmark %	
UK Equity	6.26	4.86	28.1%	60.0%	-31.9%
Overseas Equity	8.86	8.75	50.6%	20.0%	30.6%
Total Equity	15.13	13.61	78.8%	80.0%	-1.2%
UK Government Bonds	1.26	1.56	9.0%	18.0%	-9.0%
UK Non Government Bonds	1.15	1.53	8.9%		8.9%
International Bonds	0.34	0.33	1.9%		1.9%
Total Bonds	2.76	3.42	19.8%	18.0%	1.8%
Cash	0.23	0.25	1.5%	2.0%	-0.5%
Total	18.11	17.28			

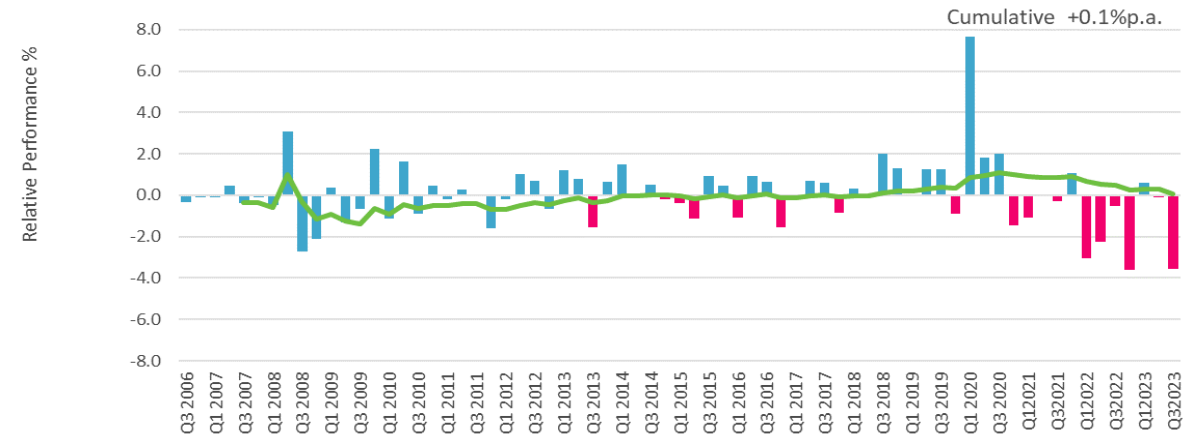
Income

(Standard Life) Estimated Annual Income	
31/03/2023	£570,598
30/06/2023	£558,687
30/09/2023	£549,647
Target	£475,000

Performance



Cumulative Performance



Commentary

In the six months leading up to September 2023, the Paisley and Renfrew funds posted returns of -2.9%, falling short of the benchmark return of +0.8%. Both quarters resulted in negative returns, with a -0.5% return in Q2 2023 and a more significant decline in Q3 2023, which saw a -2.4% performance.

Financial markets were mixed in Q2 23. Bonds faced challenges as major central banks continued to raise interest rates to curb high inflation. UK equities underperformed global counterparts due to combination of higher-than-anticipated interest rate increases, a strong sterling, and a sluggish domestic economy. The market's interest-rate sensitive sectors, in which the fund has exposure to, were adversely affected, leading to a negative performance of the fund at 0.5% for the second quarter.

The prospect of higher for longer interest rates continued to be a significant drag on financial markets in Q3 2023. Central banks' commitment to bring inflation under control with restrictive policies weighed heavily on government bond markets, although UK gilts showed some resilience. The selloff in the bond market spilled over to global equity markets, reversing some of its gains since the start of the year. Whilst UK equities demonstrated relatively better resilience and offered some relief to the portfolio, the overall fund return remains in negative territory at -2.4%.

The underperformance against the benchmark during the 6-month period was mainly driven by overseas equity performance. There are several stocks in the portfolio that have fallen in value over Q3 and the manager held overweight positions in these stocks, detracting from relative performance. The manager notes that many of these companies have been the strongest performers over other time periods.

As at the end of September 2023, the allocation to equities (c79%) was slightly below 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.

The exposure to bonds was 19.8% at end September 2023 compared to a benchmark allocation of 18%. Interestingly, in the past year, the portfolio had always been significantly overweight in equities as a whole, but this trend has reversed in the current period. With the rise in yields year-to-date, fixed income assets (bonds) have become relatively more attractive for the managers. This is evident in their increased purchases of government and corporate bonds throughout the year - something the manager has taken advantage off in repositioning the allocation back towards the strategic allocation.

Looking longer term, Paisley and Renfrew funds have shown positive 3-year returns of 1.8% p.a. and 2.0% p.a. respectively, although they lag the benchmark by c. 4.8/4.7% p.a. primarily due to last 12 months' performance. Nonetheless, when considering a 5-year time horizon, the returns improve to c 3.4/3.5% p.a., and since the inception of the mandate, they have been even stronger at 6.1/6.2% p.a., aligning with the benchmark.

Appendices



Asset Allocation

Paisley Common Good Fund

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%	

30/09/2023	Benchmark	Fund	Difference
UK Equity	60.0%	28.3%	-31.7%
Overseas Equity	20.0%	50.4%	30.4%
Total Equity	80.0%	78.7%	-1.3%
UK Government Bonds	18.0%	9.2%	-8.8%
UK Non Government Bonds		8.7%	8.7%
International Bonds		1.9%	1.9%
Total Bonds	18.0%	19.8%	1.8%
Cash	2.0%	1.5%	-0.5%
Total	100.0%	100.0%	

Renfrew Common Good Fund

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%	

30/09/2023	Benchmark	Fund	Difference
UK Equity	60.0%	28.1%	-31.9%
Overseas Equity	20.0%	50.6%	30.6%
Total Equity	80.0%	78.8%	-1.2%
UK Government Bonds	18.0%	9.0%	-9.0%
UK Non Government Bonds		8.9%	8.9%
International Bonds		1.9%	1.9%
Total Bonds	18.0%	19.8%	1.8%
Cash	2.0%	1.5%	-0.5%
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.

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