



To: Investment Review Board

On: 12 June 2024

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 31 March 2024

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 31 March 2024. 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 Gair Brisbane, Head of Charities - Scotland, LGT Wealth Management, 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.
- 1.4 The current investment management contract with LGT Wealth Management expires on 31 August 2024. The procurement process for a new contract is ongoing, and will be presented to the Finance

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** – fund income generated by the Investment Manager is 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 regulations, and in line with the Investment Policy Statement.
2. **HR & Organisational Development** – none arising directly from this report.
3. **Community Planning** – none arising directly from this report.
4. **Legal** – none arising directly from this report.
5. **Property/Assets** – none arising directly from this report.
6. **Information Technology** – none arising directly from this report.
7. **Equality & Human Rights** – none arising directly from this report. The Investment Policy Statement that governs the Environmental, Social and Governance impacts of the Common Good Fund investment is set and agreed by the Investment review Board annually..
8. **Health & Safety** – none arising directly from this report.
9. **Procurement** – none arising directly from this report.
10. **Risk** – there is an inherent risk that investment returns will not meet their target due to a number of external factors. It is the job of the investment manager to mitigate against this risk by their investment approach, and decisions taken throughout the year.
11. **Privacy Impact** – none arising directly from this report.

12. **COSLA Policy Position** – none arising directly from this report.
13. **Climate Risk** – none arising directly from this report.

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
2024

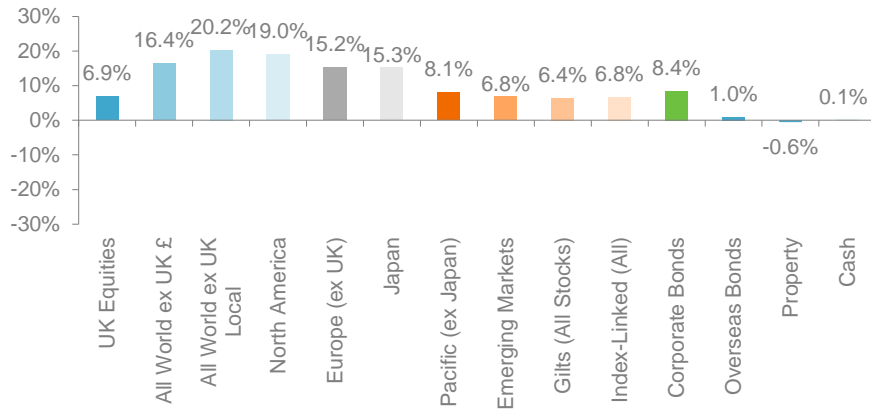
David Watson, Investment Research Consultant

Keziah Nathania, Investment Analyst

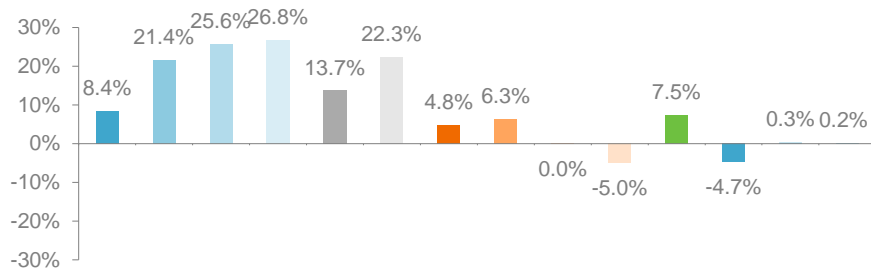


Market Background – 6 Months to 31 March 2024 ^[1]

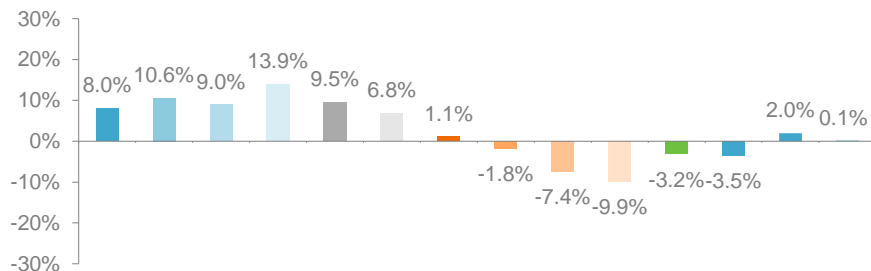
6 Months %



12 Months %



3 Years % pa

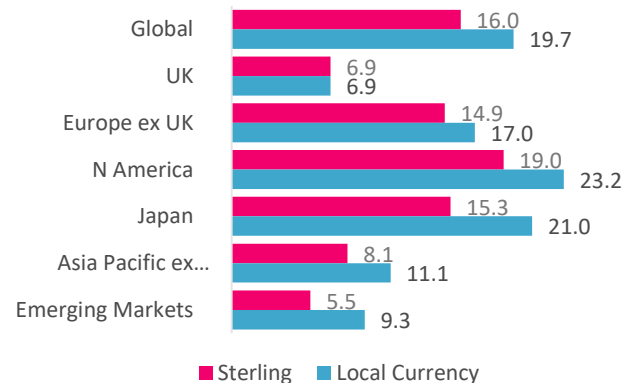


Global GDP growth was stronger than expected in Q4, largely due to unexpected resilience in US activity. Growth was weaker in other major advanced economies, but survey data suggest the worst is over and indicate global activity gained momentum in the first quarter of 2024: An increase in service-sector activity has been accompanied by signs of recovery in global manufacturing activity is gaining traction. Forecasts for global growth have been revised up, suggesting only a marginal slowdown in 2024 versus 2023.

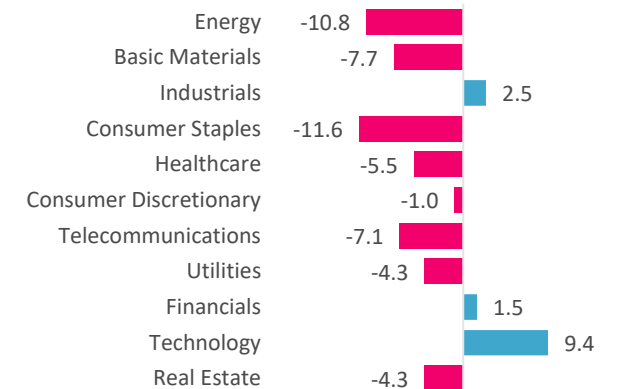
Amid declines in inflation and market-implied interest-rates, sovereign bond yields fell sharply. UK and German 10-year yields both fell 0.5% pa, to 3.9% pa and 2.3% pa, respectively, while US yields fell 0.4% pa, to 4.2% pa. Despite the Bank of Japan raising rates and ending yield curve control, Japanese yields fell by 0.1% pa, to 0.7% pa. Global credit investment-grade credit spreads declined 0.3% pa to 1.0% pa over the past 6 months, while global speculative credit spreads declined by 1.0% pa to 3.4% pa.

Global equities rose 19.7% in local-currency terms amid improving global activity data, expectations of interest rate cuts, and enthusiasm for all things AI. North American equities outperformed, given their exposure to the outperforming technology sector. Japan also outperformed amid growing optimism around corporate governance reforms. The UK market was the laggard, given little exposure to technology and above-average exposure to underperforming energy and basic materials. Emerging markets and Asia ex-Japan also notably underperformed as investors remained concerned about China's growth prospects amid ongoing property market weakness and disappointment with policy stimulus unveiled so far. The MSCI UK Monthly Property Index fell 0.6% over the last 6-month period as income was offset by capital value declines. Over the past 6 months, capital values fell more steeply in the office sector, relative to the retail and industrial sectors.

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

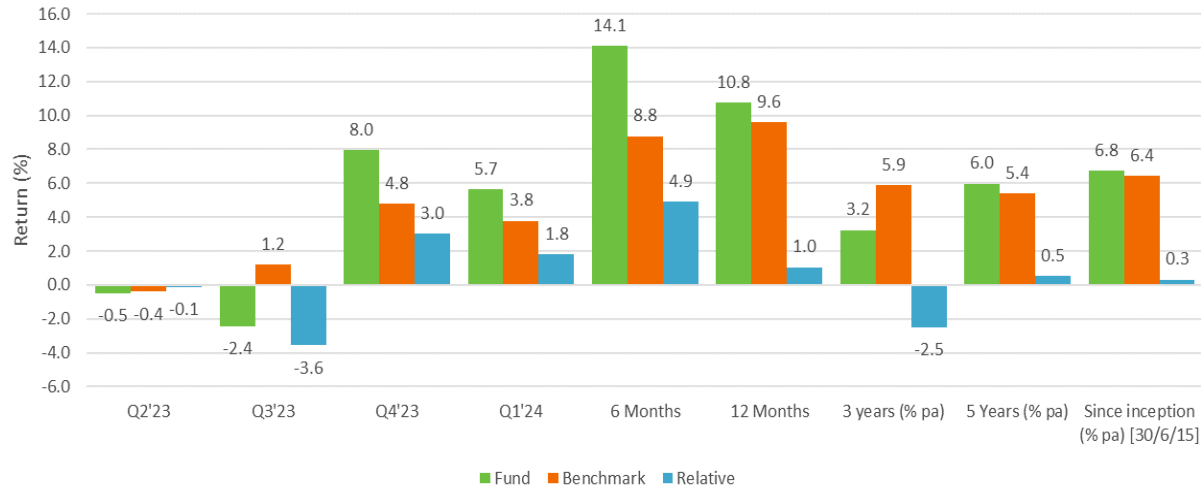
Valuation

	Value (£m)		Proportions		Difference
	30/09/2023	31/03/2024	Actual %	Benchmark %	
UK Equity	1.28	1.38	27.1%	60.0%	-32.9%
Overseas Equity	2.28	2.69	52.7%	20.0%	32.7%
Total Equity	3.56	4.07	79.8%	80.0%	-0.2%
UK Government Bonds	0.42	0.44	8.6%	18.0%	-9.4%
UK Non Government Bonds	0.39	0.38	7.5%		7.5%
International Bonds	0.09	0.09	1.8%		1.8%
Total Bonds	0.89	0.91	17.9%	18.0%	-0.1%
Cash	0.07	0.12	2.3%	2.0%	0.3%
Total	4.52	5.10			

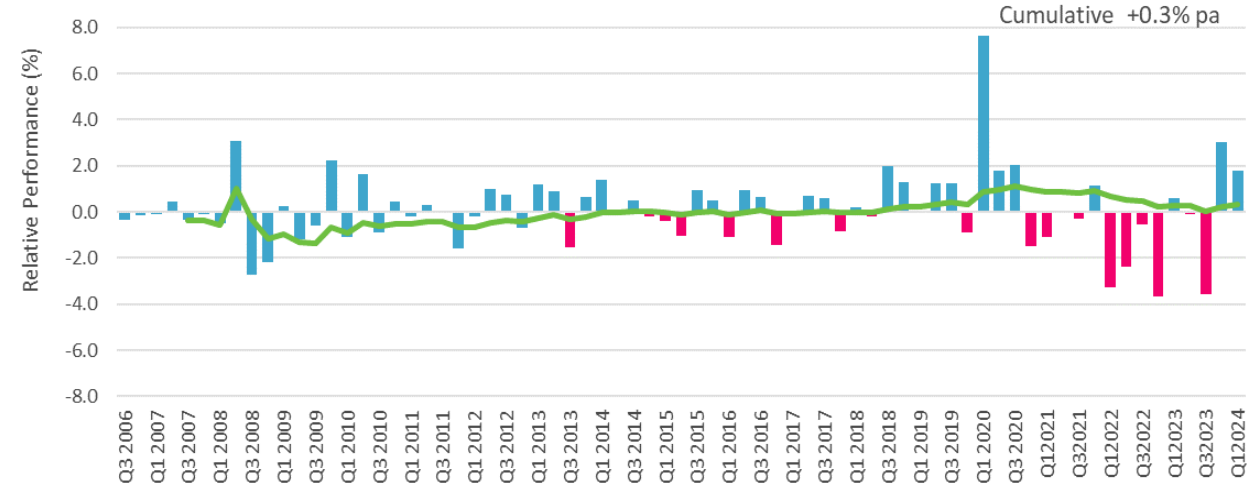
Income

(Standard Life) Estimated Annual Income	
30/09/2023	£143,538
31/12/2023	£144,591
31/03/2024	£145,697
Target	£125,000

Performance



Cumulative Performance



Valuation and Performance - Renfrew Common Good Fund

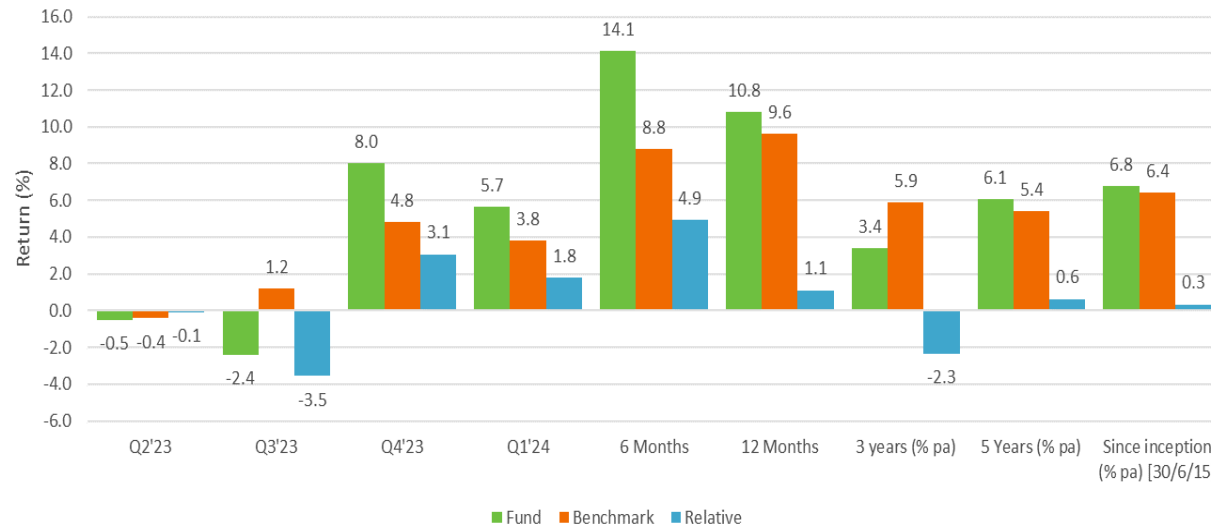
Valuation

	Value (£m)		Proportions		Difference
	30/09/2023	31/03/2024	Actual %	Benchmark %	
UK Equity	4.86	5.25	26.9%	60.0%	-33.1%
Overseas Equity	8.75	10.33	53.0%	20.0%	33.0%
Total Equity	13.61	15.58	79.9%	80.0%	-0.1%
UK Government Bonds	1.56	1.64	8.4%	18.0%	-9.6%
UK Non Government Bonds	1.53	1.51	7.8%		7.8%
International Bonds	0.33	0.35	1.8%		1.8%
Total Bonds	3.42	3.51	18.0%	18.0%	0.0%
Cash	0.25	0.42	2.1%	2.0%	0.1%
Total	17.28	19.50			

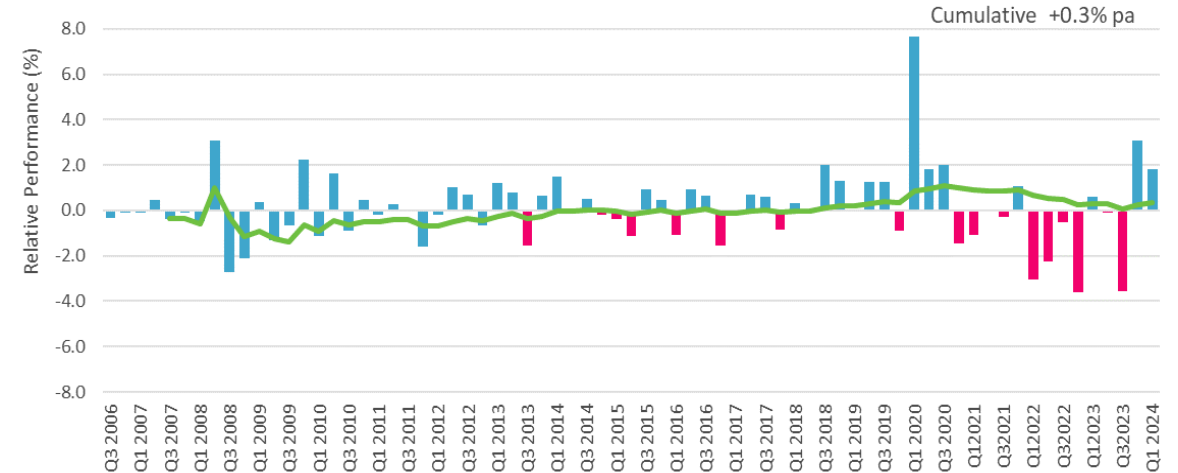
Income

(Standard Life) Estimated Annual Income	
30/09/2023	£549,647
31/12/2023	£554,325
31/03/2024	£558,909
Target	£475,000

Performance



Cumulative Performance



Commentary

In the six months leading up to March 2024, the Paisley and Renfrew funds posted returns of 14.1%, outperforming the benchmark by 4.9%. Over the last twelve months the funds outperformed their benchmark by 1.1% with a return of 10.8%. Despite facing setbacks in Q2 and Q3 of 2023, the funds delivered strong returns versus their benchmark over the past 6 months, amidst favourable economic data and shifting views on rates.

The fourth quarter of 2023 initially began with subdued expectations, but the tide soon turned with the release of positive economic data and faster-than-anticipated inflation softening. Growing excitement that central banks would cut interest rates sooner in 2024 boosted investor risk appetite, leading to a rally in both the stock and bond markets from late October. Consequently, the funds posted a return of 8.0% in Q4 23.

As the new year unfolded, the rally in bond markets faded as investors pushed back their timing of potential interest rate cuts by central banks. It was a different story for equities, however. The first quarter of 2024 witnessed continuation of solid gains for global equity markets, which was mirrored in the overall funds' return of 5.7%.

The funds' outperformance against the benchmark over the six-month period was primarily driven by the strong performance of their equity holdings. Several stocks within the portfolio appreciated in value, and the manager held overweight positions in these stocks.

As at the end of March 2024, the allocation to equities was broadly in line with the benchmark allocation (80%). The portfolio continues to be significantly underweight to UK equities and overweight in overseas equities. The underweight to UK equities has been beneficial over the longer term as UK equities have lagged other regions.

The funds were slightly overweight in bonds during the previous reporting period, but they have since realigned with the benchmark allocation of 18% at end March 2024. The remaining 2% of the funds' assets are held in cash or cash equivalents (liquidity fund).

Looking longer term, Paisley and Renfrew funds have had positive 3-year returns of 3.2% pa and 3.4% pa, respectively, although they lag the benchmark by 2.5/2.3% pa. Nonetheless, when considering a 5-year time horizon, the returns improve to 6.0/6.1% pa, both ahead of benchmark, and they have been even stronger at 6.8% pa since the inception of the mandate, outperforming the benchmark return of 6.4% pa over the same period.

Appendices



Asset Allocation

Paisley Common Good Fund

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%	

31/03/2024	Benchmark	Fund	Difference
UK Equity	60.0%	27.1%	-32.9%
Overseas Equity	20.0%	52.7%	32.7%
Total Equity	80.0%	79.8%	-0.2%
UK Government Bonds	18.0%	8.6%	-9.4%
UK Non Government Bonds		7.5%	7.5%
International Bonds		1.8%	1.8%
Total Bonds	18.0%	17.9%	-0.1%
Cash	2.0%	2.3%	0.3%
Total	100.0%	100.0%	

Renfrew Common Good Fund

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%	

31/03/2024	Benchmark	Fund	Difference
UK Equity	60.0%	26.9%	-33.1%
Overseas Equity	20.0%	53.0%	33.0%
Total Equity	80.0%	79.9%	-0.1%
UK Government Bonds	18.0%	8.4%	-9.6%
UK Non Government Bonds		7.8%	7.8%
International Bonds		1.8%	1.8%
Total Bonds	18.0%	18.0%	0.0%
Cash	2.0%	2.1%	0.1%
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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