

Notice of Meeting and Agenda Investment Review Board

Date	Time	Venue
Tuesday, 21 June 2022	09:30	Teams Meeting,

MARK CONAGHAN
Head of Corporate Governance

Membership

Councillor Alison Ann-Dowling: Councillor Jacqueline Cameron: Councillor David McGonigle:
Councillor John Shaw (Convener): Councillor Iain Nicolson (Depute Convener):

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 0141 618 7103. To find the recording please follow the link which will be attached to this agenda once the meeting has concluded.

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.

Items of business

- | | | |
|----------|---|----------------|
| 1 | Minute of Previous Meeting | 1 - 4 |
| | Minute of previous meeting held on 17 November 2021. | |
| 2 | Investment Review Overview | 5 - 14 |
| | Presentation by Head of Finance and Business Services. | |
| 3 | Information Session | |
| | Briefing by Kameel Kapitan, Investment Consultant, Hymans Robertson LLP, regarding the Renfrewshire investment portfolios and the current economic situation (NOT AVAILABLE, copy to follow). | |
| 4 | Paisley and Renfrew Common Good Funds and review of investment and income performance | 15 - 26 |
| | Report by the Director of Finance and Resources relative to the performance of the Paisley and Renfrew Common Good Fund investments, including a presentation and report from Hymans Robertson LLP regarding the key issues to be presented by Kameel Kapitan, Investment Consultant, Hymans Robertson LLP. | |
| | Subsequent to this, Gair Brisbane, Head of Charities (Scotland), abrdn (formerly Aberdeen Standard Capital Limited), will deliver a presentation relative to the performance of the Paisley and Renfrew Common Good Fund investments. | |

Minute of Meeting Investment Review Board

Date	Time	Venue
Wednesday, 17 November 2021	11:00	Remotely by MS Teams,

Present: Councillor John McIntyre, Councillor Iain Nicolson, Councillor Jim Sharkey, Councillor John Shaw

Chair

Councillor Shaw, Convener, presided.

In Attendance

A MacArthur, Head of Finance, R Conway, Finance Manager; C MacDonald and P Shiach, both Senior Committee Services Officers (all Finance & Resources).

Also in Attendance

D Millar, Senior Investment Analyst and K Kapitan, Investment Consultant 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 the Policy Board would be recorded and that the recording would be available to watch on the Council's website.

Apology

Councillor Paterson.

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 9 June 2021.

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 & Resources relative to the Review of Investment Principles in relation to the Paisley and Renfrew Common Good Funds.

The report advised that Hymans Robertson LLP had 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).

A report by Hymans Robertson LLP was submitted for Members' consideration. The report provided an assessment of the performance of the Funds' investments and income levels during the six-month period ending 30 September 2021. Hymans Robertson LLP were represented at the meeting by Mr K Kapitan (Investment Consultant), who presented his report to Members, and by Mr D Millar (DC Consultant). Mr Kapitan also gave a presentation covering an update on markets and the current economic climate.

G Brisbane, Senior Charity Portfolio Manager, abrdn Capital Limited, gave a short presentation on the management of the fund. Members took the opportunity to question him directly in regard to his presentation and Fund performance.

DECIDED: That the report and presentations be noted.

3 **Paisley and Renfrew Common Good Funds: review of annual income targets and fixed interest stocks restriction**

There was submitted a report by the Director of Finance & Resources relative to a review of annual income targets and fixed interest stocks restriction.

The report advised that the Investment Review Board at its meeting on 9 June 2021 agreed that funds from the Paisley Common Good Fund and Renfrew Common Good Fund cash balance (managed by the Council) be added to the investments managed by Aberdeen Standard Capital Limited (now abrdn Capital Limited): £0.3m for the Paisley Common Good Fund and £3.3m for the Renfrew Common Good Fund.

This transfer of funds was completed on 21 June 2021 and had contributed to a material increase in the value of funds held within each of the two investment portfolios. The corresponding increase in expected yield from each of the portfolios had not yet been reflected in any increase to the annual income targets that were in

place for the Investment Manager, these targets currently being set at £113,000 for the Paisley Common Good Fund and £380,000 for the Renfrew Common Good Fund.

The report indicated that an appropriate revision to the income targets would be to apply a proportional increase in the absolute annual income target so that the target yield, based on the fund valuations prior to and subsequent to the transfer of funds that took place in June 2021, was kept relatively static.

The proposed revised annual income targets – of £125,000 for the Paisley Common Good Fund and £475,000 for the Renfrew Common Good Fund – equated approximately to a 2.4% yield, were in line with the benchmark yield and represent a demanding target, but not so much that the Investment Manager was forced to sacrifice potential capital growth in the pursuit of income.

In achieving the annual income targets set for each fund, the Investment Manager managed the funds on a discretionary basis in line with the Investment Policy Statement. The Investment Policy Statement currently contained a restriction that a minimum of 15% of the fund value should be held in fixed interest stocks. This restriction had been in place for many years and would have been established initially to ensure that income be maintained above a minimum level. However, this restriction was now forcing the manager to keep a level of fixed interest stocks which, given current market conditions, was to the detriment of overall performance.

The report intimated that since it could be demonstrated that income had compared favourably to the annual income target over several years, a minor amendment was proposed to the Investment Policy Statement that, whilst maintaining the 15% target holding in fixed interest stocks, the Investment Manager could vary from this level down to 10% or up to 20% depending on market conditions. This proposed change was reflected within an updated Investment Policy Statement appended to the report.

The report intimated that the updated Investment Policy Statement also incorporated amendments resulting from the change of name of the Investment Manager on 24 September 2021 from Aberdeen Standard Capital Limited to abrdn Capital Limited.

DECIDED:

(a) That the revisions proposed to the annual income targets of the two portfolios: £125,000 for the Paisley Common Good Fund and £475,000 for the Renfrew Common Good Fund be approved; and

(b) That the updated Investment Policy Statements, one for Paisley Common Good Fund, one for Renfrew Common Good Fund, appended to the report, incorporating an amendment to the restriction relating to the holding of fixed interest stocks, as described in the report, and incorporating amendments reflecting the change of name of the Investment Manager be approved.

Investment Review Board

Introduction

www.renfrewshire.gov.uk



Overview

- IRB meetings
- Common Good Funds
- Investment Principles
- Investment Manager
- Investment Adviser
- Governance and reporting

Investment Review Board

- Sub-committee of the FRCSPB
- 2 meetings per annum: June and November
- 5 members; quorum of 3
- Monitor investment performance in preceding 6 months
- Agree investment principles regularly

Common Good Funds (1)

- Renfrew, Paisley and Johnstone: historic provenance
- Registered charities*: OSCR rules apply
- Differing asset profiles; total assets at 31 March 2022:
 - Renfrew - £29.1m
 - Paisley - £5.6m
 - Johnstone - £0.1m

Common Good Funds (2)

- Excess cash funds of Paisley and Renfrew CGFs invested in financial instruments, e.g. company shares, corporate bonds, gilts
- Discretionary investment manager contract
- Funds under management at 31 March 2022:
 - Paisley - £4.0m
 - Renfrew - £13.4m

Investment Policy Statement

- Govern the relationship between Trustees and the investment manager
- Outline risk appetite, any specific restrictions, respective responsibilities
- Also sets out agreed benchmark against which performance is measured
- Reviewed annually

Investment Manager

- Appointed manager is abrdn
- Appointed from July 2019 on a 3+2 basis
- Have managed the fund since 2006
(previously as Aberdeen Standard Capital Limited)

Investment Adviser

- Hymans Robertson LLP
- Provide independent advice on the performance of abrdn
- Support investment manager selection exercises

Governance and Reporting

- Charity rules compliance
- Charity trustee obligations
- Charity accounting regulations apply
- Accounts approved (and audited) separately to the Renfrewshire Council accounts
- Same timescales as for Council accounts apply (30 June and 30 September)



To: Investment Review Board

On: 21 June 2022

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds report to 31 March 2022

1. Summary

- 1.1 Hymans Robertson LLP have been engaged by the Council to provide investment advice relating to the Paisley and Renfrew Common Good Funds, and to assess the performance of the Funds' investment managers, abrdn.
 - 1.2 A presentation and a report by Hymans Robertson LLP are attached for Members' consideration. The presentation provides an update on markets and the current economic climate. The report provides an assessment of the performance of the Funds' investments and income levels during the six-month period ending 31 March 2022. Hymans Robertson LLP will be represented at the meeting by Kameel Kapitan (Investment Consultant), who will present the report to Members.
 - 1.3 Gair Brisbane, Senior Charity Portfolio Manager, abrdn (formerly Aberdeen Standard Capital Limited), will give a short presentation during which there will be an opportunity for Members to ask questions directly in respect of the presentation and the Fund performance.
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2. Recommendations

- 2.1 To consider the attached presentation and report from Hymans Robertson LLP and the presentation by abrdn.

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 Statement of Investment Principles.
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

Author: Geoff Borland, Finance Manager, geoffrey.borland@renfrewshire.gov.uk

Renfrewshire Council Common Good Funds

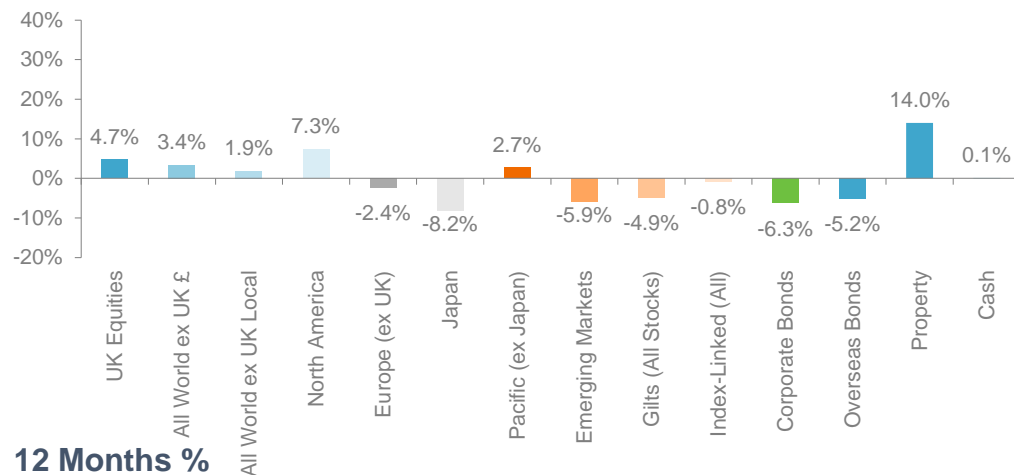
Review of Investment Managers'
Performance for the 6 months to 31 March
2022

Kameel Kapitan, Investment Consultant

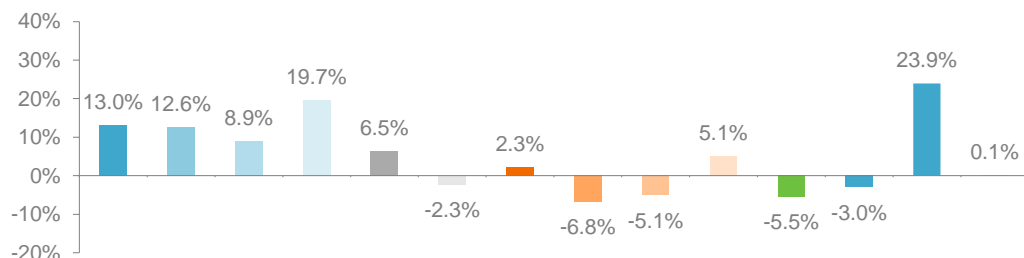


Market Background – 6 Months to 31 March 2022^[1]

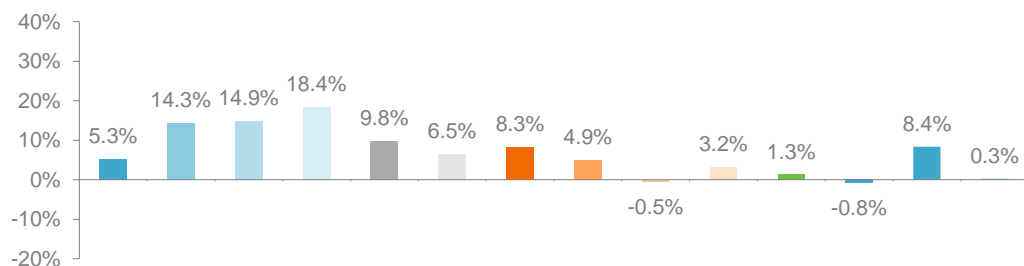
6 Months %



12 Months %



3 Years % p.a.



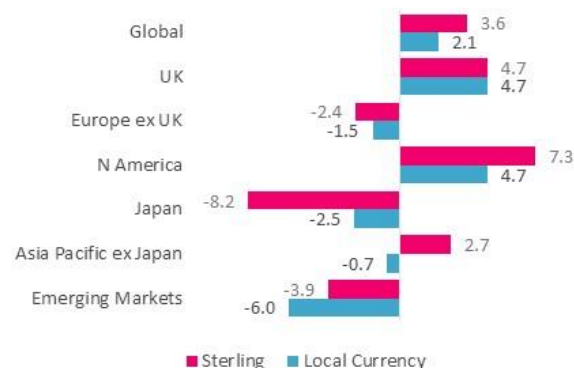
Over the 6 month period to end March 2022 economic momentum slowed with attention turning to supply chain disruptions and rising inflation. Additionally, physical disruptions and sanctions caused by the Russia-Ukraine conflict triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real income.

Global equity markets returned 2.1% (local currency) over the period although it was very much a tale of two halves, a resilient Q4 largely offset by negative returns in Q1. Amid the surge in oil and gas prices, the energy sector notably outperformed whilst commodity price rises also benefitted basic materials. Utilities also outperformed. Rising input costs and a squeeze on real incomes weighed on the industrial and consumer discretionary sectors, respectively, while yield rises weighed on tech sector valuations.

The UK outperformed, given its above-average exposure to energy, metals, and miners, whilst the utilities sector supported US outperformance. Emerging markets underperformed, pulled lower by Chinese growth concerns where fears over tighter regulation have been compounded by a slowdown in the Chinese property and manufacturing sectors, and renewed lockdowns.

In fixed income markets, both nominal and index-linked gilts suffered in the rising yield environment although the latter held up better due to investors demand for inflation protection. Within investment grade credit markets, spreads increased by 0.35% p.a., while US and European speculative-grade spreads increased 0.28% p.a. and 0.96% p.a., respectively. Larger increases in European spreads perhaps reflect expectations of a larger negative economic impact from the Russia-Ukraine conflict.

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 Base Rate. ^[2] Returns shown in Sterling terms. Indices shown (from left to right) are: MSCI World, MSCI Europe ex UK, MSCI Japan, MSCI Asia Pacific ex Japan, MSCI Emerging Markets. ^[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
	30/09/2021	31/03/2022	Actual %	Benchmark %	
UK Equity	1.91	1.71	32.6%	60.0%	-27.4%
Overseas Equity	2.49	2.73	51.8%	20.0%	31.8%
Total Equity	4.40	4.44	84.5%	80.0%	4.5%
UK Government Bonds	0.25	0.28	5.2%	18.0%	-12.8%
UK Non Government Bonds	0.39	0.28	5.3%		5.3%
International Bonds	0.17	0.10	2.0%		2.0%
Total Bonds	0.81	0.66	12.5%	18.0%	-5.5%
Cash	0.07	0.16	3.1%	2.0%	1.1%
Total	5.28	5.26			

Income

(Standard Life) Estimated Annual Income	
30/09/2021	£169,442
31/12/2021	£156,509
31/03/2022	£158,412
Target	£113,000

Performance



Cumulative Performance



Valuation and Performance - Renfrew Common Good Fund

Valuation

	Value (£m)		Proportions		Difference
	30/09/2021	31/03/2022	Actual %	Benchmark %	
UK Equity	7.32	6.55	32.6%	60.0%	-27.4%
Overseas Equity	9.37	10.34	51.5%	20.0%	
Total Equity	16.70	16.89	84.2%	80.0%	4.2%
UK Government Bonds	0.84	0.95	4.7%	18.0%	-13.3%
UK Non Government Bonds	1.53	1.17	5.8%		5.8%
International Bonds	0.72	0.39	2.0%		2.0%
Total Bonds	3.10	2.51	12.5%	18.0%	-5.5%
Cash	0.31	0.66	3.3%	2.0%	1.3%
Total	20.10	20.07			

Income

(Standard Life) Estimated Annual Income	
30/09/2021	£649,710
31/12/2021	£559,470
31/03/2022	£608,183
Target	£380,000

Performance



Cumulative Performance



Commentary

The Paisley and Renfrew funds in aggregate, returned around 0.7% and 0.9% respectively over the 6 months to 31 March 2022; over the same period, the benchmark achieved a return of 2.3%. Strong Q4 2021 returns for both funds (around 5.5%) were largely offset by Q1 2022 performance as the initial shock of the Russia-Ukraine conflict impacted markets. Within fixed income markets, the rising inflation backdrop has seen central banks turn hawkish, with markets pricing in numerous rate hikes by central banks over 2022 and 2023. Fixed interest government bonds continued to struggle in this environment and whilst real yields rose over Q2, over the 12 months to end March 2022 index-linked bonds have benefited, with investors seeking inflation protection.

Performance over Q4 2021 was strong in absolute terms and ahead benchmark (4.4%). Markets proved resilient despite the emergence of the Omicron variant. Global equities were the main driver propelled higher by strong earnings growth. The technology holdings within the portfolio will have benefited in this environment.

Concerns about central bank tightening, slowing earning momentum and the geopolitical situation all contributed to a volatile Q1 environment in which the vast majority of asset classes struggled. Against this backdrop the funds returned around -4.5%, underperforming the benchmark return of -1.4%. Q1 2022 saw a rotation back into more cyclical stocks, with value notably outperforming growth as a style – a rising interest rate environment weighs more heavily on the valuations of companies with earnings growth further into the future such as those in the technology sector. 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 very positive in absolute terms (just over 7%) albeit behind the benchmark return of 9.8%. However, returns over 3 and 5 years remain strong in both absolute and relative terms. Returns of 9.2% p.a. and 8.0% p.a. are significantly ahead of benchmark (6.4% p.a. and 5.5% p.a. respectively). Since the inception of the mandate, on 1 July 2006, the Fund return of +7.5% p.a. is strong in absolute terms and comfortably ahead of the benchmark return of +6.7% p.a. Furthermore, throughout this time the investment manager has continued to comfortably meet a demanding income target.

As at the end of March 2022, the allocation to equities (c84%) 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, albeit the reverse has been true over 2022 to date. The marginal overweight to equities as whole has been beneficial as equities have outperformed bonds. Going forward, the manager may look to reconsider the regional balance given market outlook.

The exposure to bonds was 12.5% at end March 2022 compared to a benchmark allocation of 18%. The allocation to cash at end March 2022 was around 3% (c1% above the 2% benchmark allocation), possibly reflective of a more defensive positioning in the current volatile environment.

Appendices



Asset Allocation

Paisley Common Good Fund

30/09/2021	Benchmark	Fund	Difference
UK Equity	60.0%	36.3%	-23.7%
Overseas Equity	20.0%	47.1%	27.1%
Total Equity	80.0%	83.4%	3.4%
UK Government Bonds	18.0%	4.7%	-13.3%
UK Non Government Bonds		7.4%	7.4%
International Bonds		3.2%	3.2%
Total Bonds	18.0%	15.3%	-2.7%
Cash	2.0%	1.3%	-0.7%
Total	100.0%	100.0%	

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%	

Renfrew Common Good Fund

30/09/2021	Benchmark	Fund	Difference
UK Equity	60.0%	36.4%	-23.6%
Overseas Equity	20.0%	46.6%	26.6%
Total Equity	80.0%	83.1%	3.1%
UK Government Bonds	18.0%	4.2%	-13.8%
UK Non Government Bonds		7.6%	7.6%
International Bonds		3.6%	3.6%
Total Bonds	18.0%	15.4%	-2.6%
Cash	2.0%	1.5%	-0.5%
Total	100.0%	100.0%	

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%	

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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