

To: Investment Review Board

On: 17 November 2021

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 2021

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 30 September 2021. Hymans Robertson LLP will be represented at the meeting by Kameel Kapitan (Investment Consultant), who will present his report to Members, and by David Millar (DC Consultant). Mr Kapitan will also give a presentation covering an update on markets and the current economic climate.
- 1.3 Gair Brisbane, 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 abrdrn 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 30
September 2021

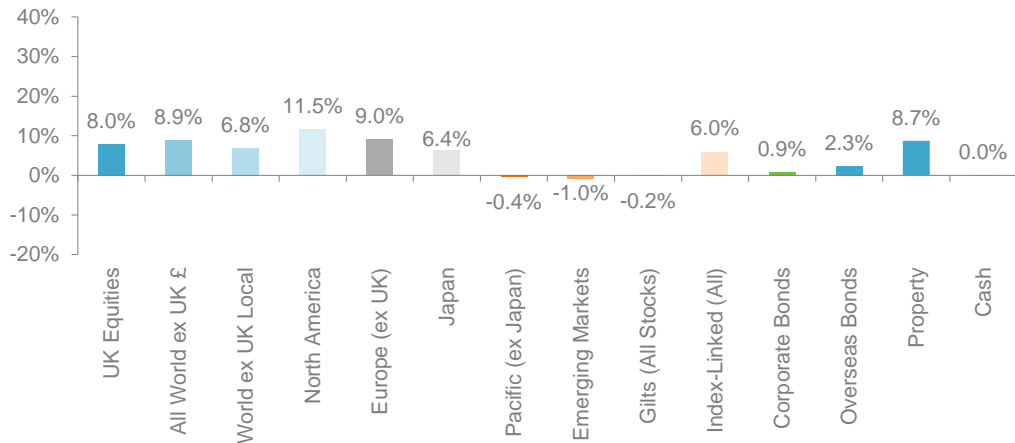
Kameel Kapitan, Investment Consultant

David Millar, DC Consultant

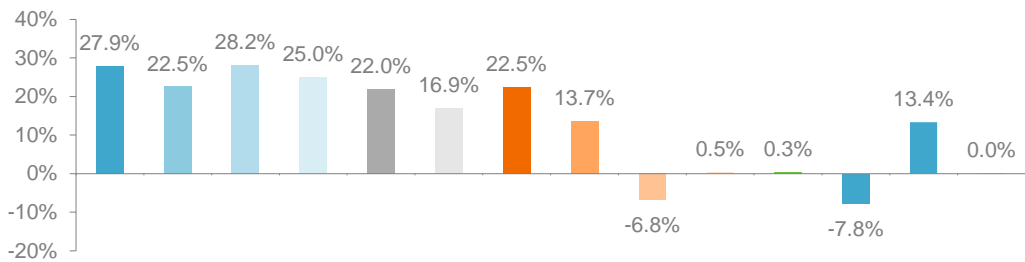


Market Background – 6 Months to 30 September 2021^[1]

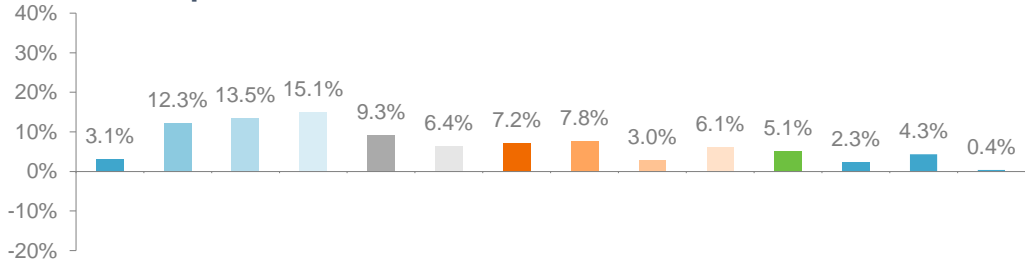
6 Months %



12 Months %



3 Years % p.a.



The 6 month period to end September 2021 was a tale of two halves. Q2 2021 provided most of the impetus with growth forecasts continuing to see upward revisions amid accumulating evidence of the effectiveness of vaccines, the deployment of large US fiscal stimulus and greater economic resilience to the latest waves of COVID-19. However, despite continued resilience in Q3, market sentiment was somewhat dampened, particularly by increasing concerns around supply chain constraints and inflationary fears.

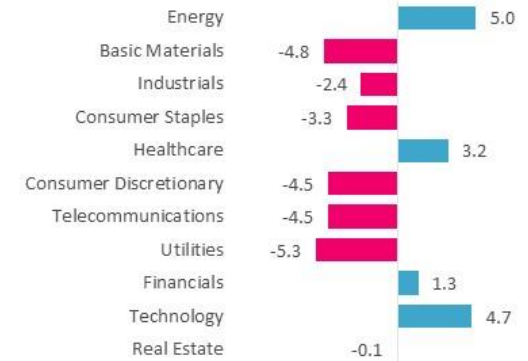
Global equity markets gained 6.9% (local currency) over the six month period. There was a rotation back into cyclical sectors, such as energy, industrials and basic materials in Q3 whilst the technology sector continued to perform well. From a regional standpoint, Europe and North America outperformed eastern economies whilst more broadly, developed markets outperformed emerging. A slower vaccination campaign and a resurgence in COVID-19 cases weighed on Japanese markets in Q2. Unsurprisingly, the US continues to be buoyed by the technology sector. Emerging markets meanwhile have significantly underperformed as policy tightening and regulatory concerns weighed on Chinese markets.

In fixed income markets, increasing inflationary expectations resulted in a divergence between nominal and real yields, nominal yields rose whilst real yields fell. Within investment grade credit markets, spreads and yields were down over the period on the back of continued improvement in credit fundamentals and declining default rates.

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

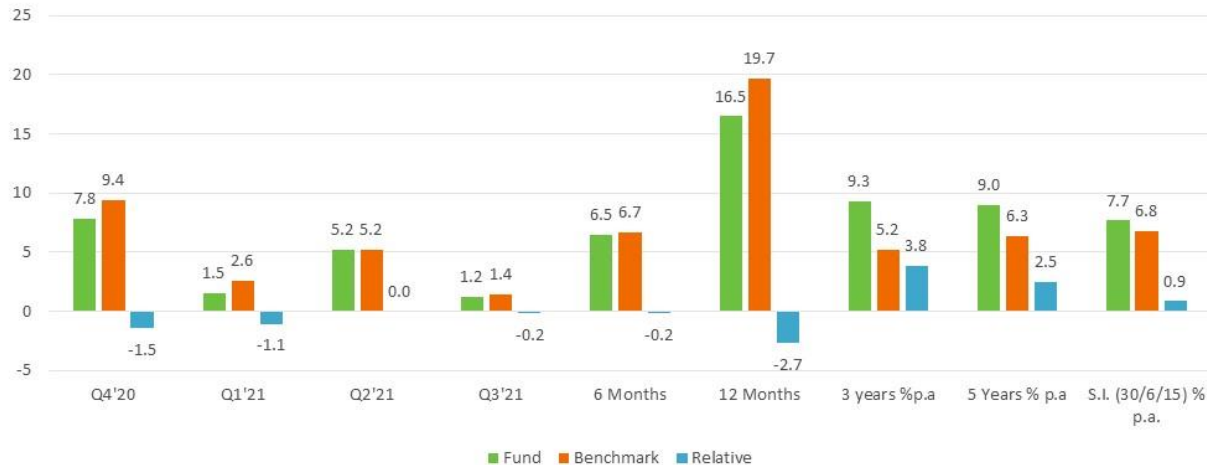
Valuation

	Value (£m)		Proportions		Difference
	31/03/2021	30/09/2021	Actual %	Benchmark %	
UK Equity	1.69	1.91	36.3%	60.0%	-23.7%
Overseas Equity	2.26	2.49	47.1%	20.0%	27.1%
Total Equity	3.96	4.40	83.4%	80.0%	3.4%
UK Government Bonds	0.25	0.25	4.7%	18.0%	-13.3%
UK Non Government Bonds	0.34	0.39	7.4%		7.4%
International Bonds	0.13	0.17	3.2%		3.2%
Total Bonds	0.72	0.81	15.3%	18.0%	-2.7%
Cash	0.08	0.07	1.3%	2.0%	-0.7%
Total	4.75	5.28			

Income

(Standard Life) Estimated Annual Income	
31/12/2020	£142,603
31/03/2021	£151,155
30/06/2021	£169,442
Target	£113,000

Performance



Cumulative Performance



Valuation and Performance - Renfrew Common Good Fund

Valuation

	Value (£m)		Proportions		Difference
	31/03/2021	30/09/2021	Actual %	Benchmark %	
UK Equity	5.71	7.32	36.4%	60.0%	-23.6%
Overseas Equity	7.63	9.37	46.6%	20.0%	26.6%
Total Equity	13.34	16.70	83.1%	80.0%	3.1%
UK Government Bonds	0.83	0.84	4.2%	18.0%	-13.8%
UK Non Government Bonds	1.10	1.53	7.6%		7.6%
International Bonds	0.51	0.72	3.6%		3.6%
Total Bonds	2.44	3.10	15.4%	18.0%	-2.6%
Cash	0.29	0.31	1.5%	2.0%	-0.5%
Total	16.07	20.10			

Income

(Standard Life) Estimated Annual Income	
31/12/2020	£480,796
31/03/2021	£554,692
30/06/2021	£649,710
Target	£380,000

Performance



Cumulative Performance



Commentary

Both the Paisley and Renfrew funds in aggregate, returned around 6.5% over the 6 months to 30 September 2021; over the same period, the benchmark achieved a return of 6.7%. The reopening of global economies provided further tailwinds to the funds' equity holdings, particularly in Q2. Within fixed income markets, fixed interest government bonds struggled as with the recovery in growth has come inflationary pressures which has increased expectations of interest rate rises. Index-link bonds though have benefited, with real yields falling.

Performance over Q2 2021 was strong in absolute terms and in line with benchmark (5.2%). Positive stock selection within the healthcare sector and an overweight to the sector were beneficial to performance.

Performance was more subdued in Q3, as supply chain constraints, an increase in coronavirus cases from the delta variant and a resurgence in inflationary fears dampened market sentiment. In such an environment there was a rotation back to cyclical sectors globally with positive returns in July and August largely offset by falls in September. Contributing to performance were the technology and energy sectors. The former continues to benefit from the increased use of technology as a result of the pandemic whilst the latter has benefitted from higher oil and gas prices.

Over 12 months, fund returns are very positive in absolute terms (+16.5%) albeit behind the benchmark return of 19.7%. However, returns over 3 and 5 years are both strong in absolute and relative terms. Returns of 9.0% p.a. and 9.2% p.a. are significantly ahead of benchmark (3.8% p.a. and 2.5% p.a. respectively). Since the inception of the mandate, on 1 July 2006, the Fund return of +7.7% p.a. is strong in absolute terms and comfortably ahead of the benchmark return of +6.8% p.a. Throughout this time, the investment manager has continued to meet a demanding income target.

As at the end of September 2021, the allocation to equities (c83%) 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 (although this has receded somewhat since Q4 2020) whilst the marginal overweight to equities as whole has been beneficial as equities have outperformed bonds. Going forward, the manager may look to alter this regional balance and allocate more to the UK.

The exposure to bonds was 15.4% at end September 2021, just above the minimum allocation of 15%. This compares to a benchmark allocation of 18%. The allocation to cash at end September 2021 was 1.5% (0.5% below the 2% benchmark allocation).

Appendices



Asset Allocation

Paisley Common Good Fund

31/03/2021	Benchmark	Fund	Difference
UK Equity	60.0%	35.6%	-24.4%
Overseas Equity	20.0%	47.6%	27.6%
Total Equity	80.0%	83.2%	3.2%
UK Government Bonds	18.0%	5.2%	-12.8%
UK Non Government Bonds		7.2%	7.2%
International Bonds		2.8%	2.8%
Total Bonds	18.0%	15.2%	-2.8%
Cash	2.0%	1.6%	-0.4%
Total	100.0%	100.0%	

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%	

Renfrew Common Good Fund

31/03/2021	Benchmark	Fund	Difference
UK Equity	60.0%	35.5%	-24.5%
Overseas Equity	20.0%	47.5%	27.5%
Total Equity	80.0%	83.0%	3.0%
UK Government Bonds	18.0%	5.2%	-12.8%
UK Non Government Bonds		6.8%	6.8%
International Bonds		3.2%	3.2%
Total Bonds	18.0%	15.2%	-2.8%
Cash	2.0%	1.8%	-0.2%
Total	100.0%	100.0%	

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%	

Performance by Asset Class

Paisley Common Good Fund

	6 months		12 months		Contribution to Absolute Return		Contribution to Relative Return	
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	12 months %	6 months %	12 months %
UK Gov't Bonds	0.0	-0.1	-7.5	-6.8	0.0	-0.4	0.0	0.0
Corporate Bonds	0.5	0.7	1.4	-0.4	0.0	0.1	0.0	0.6
International Bonds	2.4	2.2	4.1	-7.6	0.1	0.1	0.0	0.4
UK Equities	7.6	7.9	27.4	27.8	2.7	9.5	-0.1	-0.1
Overseas Equities	8.0	9.8	20.1	23.8	3.8	9.1	-0.7	-1.4
Total Assets	6.5	6.7	16.5	19.7				
Estimated Contribution to relative returns from asset allocation							0.6	-2.6

Renfrew Common Good Fund

	6 months		12 months		Contribution to Absolute Return		Contribution to Relative Return	
	Fund %	Benchmark %	Fund %	Benchmark %	6 months %	12 months %	6 months %	12 months %
UK Gov't Bonds	0.0	-0.1	-7.2	-6.8	0.0	-0.4	0.0	0.0
Corporate Bonds	0.6	0.7	1.6	-0.4	0.0	0.1	0.1	0.5
International Bonds	2.5	2.2	4.3	-7.6	0.1	0.1	0.0	0.4
UK Equities	7.4	7.9	27.2	27.8	2.6	9.4	-0.1	-0.1
Overseas Equities	7.9	9.8	20.0	23.8	3.6	8.9	-0.8	-1.5
Total Assets	6.4	6.7	16.4	19.7				
Estimated Contribution to relative returns from asset allocation							0.5	-2.7

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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