

**To:** Investment Review Board

**On:** 17 November 2021

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**Report by:** Director of Finance and Resources

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**Heading:** Review of annual income targets and fixed interest stocks restriction

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1. **Summary**

1.1 The Investment Review Board at their previous 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.

1.2 This transfer of funds was completed on 21 June 2021, and has 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 has not yet been reflected in any increase to the annual income targets that are 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.

1.3 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, is kept relatively static.

1.4 The proposed revised annual income targets – of £125,000 for the Paisley Common Good Fund and £475,000 for the Renfrew Common Good Fund – equate approximately to a 2.4% yield, are in line with the

benchmark yield and represent a demanding target, but not so much that the Investment Manager is forced to sacrifice potential capital growth in the pursuit of income.

- 1.5 In achieving the annual income targets set for each fund, the Investment Manager manages the funds on a discretionary basis in line with the Investment Policy Statement. The Investment Policy Statement currently contains a restriction that a minimum of 15% of the fund value should be held in fixed interest stocks. This restriction has 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 is now forcing the manager to keep a level of fixed interest stocks which, given current market conditions, is to the detriment of overall performance.
- 1.6 Since it can be demonstrated that income has compared favourably to the annual income target over several years, a minor amendment is proposed to the Investment Policy Statement that, whilst maintaining the 15% target holding in fixed interest stocks, the Investment Manager can vary from this level down to 10% or up to 20% depending on market conditions. This proposed change is reflected within an updated Investment Policy Statement attached to this report.
- 1.7 The updated Investment Policy Statement attached also incorporates amendments resulting from the change of name of the Investment Manager on 24 September 2021 from Aberdeen Standard Capital Limited to abrdn Capital Limited.

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## 2. **Recommendations**

- 2.1 Members are requested to consider and approve 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.
- 2.2 Members are requested to consider and approve the updated Investment Policy Statements (one for Paisley Common Good Fund, one for Renfrew Common Good Fund) attached to this report, incorporating an amendment to the restriction relating to the holding of fixed interest stocks, as described in this report, and incorporating amendments reflecting the change of name of the Investment Manager.

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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

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## List of Background Papers

None

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# **Renfrewshire Council Paisley Common Good Fund**

## **Investment Policy Statement**

### **A: Introduction**

1. The Paisley Common Good Fund (a charity registered in Scotland – SC019478) operates for the benefit (or “common good”) of the inhabitants living within the former burghs of Paisley. The Paisley Common Good Fund (hereinafter “the charity”) provides financial support to third party organisations and also support activities taking place within the former burgh boundaries.
2. The elected members of Renfrewshire Council are ex-officio Trustees of the charity. Decisions regarding the operation, assets, processes or policies of the charities are delegated by the Council to the Finance, Resources and Customer Services Policy Board (FRCSPB). The investment performance of the charity is monitored regularly by Council officers, and is reported bi-annually to the Investment Review Board (a sub-committee of the FRCSPB), which is comprised of 5 cross party elected members.

### **Purpose of statement**

3. This policy statement sets out the principles and governance under which the investment of the assets of the charity is managed. The Director of Finance and Resources of Renfrewshire Council has issued this statement as Treasurer on behalf of the charity.

### **Consultation**

4. The Director of Finance and Resources of Renfrewshire Council has consulted with abrdn Capital Limited (the charity’s investment manager) and with Hymans Robertson LLP (the investment advisor) about the content of the statement.

### **Investment powers**

5. The Director of Finance and Resources has authority as Treasurer of the charity to invest the funds of the charity in such investments, securities or property, as may be thought fit.
6. The investment manager, abrdn Capital Limited, is responsible for the allocation of assets between types of investments and for the selection of individual stocks within each type of investment. The funds are managed on a discretionary basis where the investment manager makes all investment decisions in line with this policy.
7. Other than heritable property held as investment assets, and cash required in the short term, the Director and officers rely on professional investment managers for the day-to-day management of the assets of the charity.

## **Investment objectives**

8. The investment manager has been instructed as a primary objective to achieve a regular stream of income. The outgoings shall be as determined on an annual basis by the Investment Review Board. A secondary objective is to grow the real value of capital over the longer term.

## **B: Diversification and risk controls**

### **Risk**

9. The Trustees seek a moderate risk approach (classed as “medium high” in the rating methodology employed by abrdn Capital Limited) through a diversified portfolio invested in a broad spread of equities but also including a proportion of fixed interest securities, property, cash and other such investments as the Trustees approve.

### **Custody**

10. Our appointed investment manager is responsible for appointing a recognised custodian for the assets of the charity.

## **Investment Manager restrictions**

11. The Trustees require their investment manager to consider environmental, social and governance (ESG) factors in making investment decisions. Each investment decision shall be made on a balanced view on the overall investment case for a particular sector or stock. In general terms, this means that ESG investment concerns should be taken into account when the decision whether to invest is being made. This does not mean that the decision whether or not to invest depends entirely on the assessment of these factors, but that they should be considered along with all relevant factors when decisions to buy, hold or sell investments are being made.
12. The Trustees note the UN Principles for Responsible Investment (UNPRI) as an approach which sets out global best practice in the area of ESG. The Trustees prefer to work with an investment manager who is a signatory to the UNPRI and note abrdn Capital, as part of Aberdeen Standard Investments, is a signatory.
13. As a charity with an interest in environmental sustainability and the impact of climate change on the planet and communities, the Trustees consider that there are some investments which they would wish to exclude from the portfolio as they are not aligned with or run contrary to the objectives of the charity; or because they may cause reputational damage to the charity. The Investment Review Board (on behalf of Trustees) has agreed the following specific restrictions:
  - Ethical screening criteria
    - No direct investment in tobacco stocks.
    - No direct investment in any company generating more than 5% of revenue from gambling
    - No direct investment in any company involved in the production of armaments (noting that abrdn Capital, as part of Aberdeen Standard Investments, supports the principles in both the Convention on Cluster Munitions 2008 and the 1997 Convention on Anti-Personnel Mines, which ban these weapons as defined by the conventions; and will not knowingly invest in companies producing or selling these weapons)

- No direct investment in fossil fuel stocks, by which we mean the oil and gas majors and thermal coal extractive companies
- Other restrictions
  - A target of 15%, variable to any level between 10% and 20% at the discretion of the investment manager depending on market conditions, to be held in fixed interest stocks.

## Manager controls

14. Powers of investment delegated to the investment manager must be exercised with a view to giving effect to the principles contained in this policy so far as is reasonably practicable.

## Taxation

15. The investment manager shall provide annually an HM Revenue & Customs approved tax voucher with supporting schedules detailing dividend income received.

## Performance measurement

16. The Treasurer on behalf of Trustees will monitor the performance of the portfolio against its objectives on a quarterly basis. The performance of the respective elements of the portfolio will be measured against the respective benchmark for that investment as outlined in the table below:

Asset class	Index	Weighting
UK Equities	FTSE All-Share Index	60%
Global Equities	FTSE World ex UK	20%
Fixed interest securities	FTA All-UK Government Stocks Index	18%
Cash	UK Interbank 7 day	2%

The Investment Review Board will review the suitability of the benchmarks annually.

## Reporting

17. The investment manager will prepare an investment report on the funds every quarter plus an annual review of the year. The investment manager will also attend bi-annual meetings of the Investment Review Board.

## Duration of contract

18. The contract with abrdn Capital Limited was renewed on 1 July 2019 for a three-year period ending on 30 June 2022 with the option to extend for up to a further two years, at the discretion of Renfrewshire Council.

## Frequency of review

19. The Investment Review Board will review this policy annually, or sooner if circumstances demand it.





# **Renfrewshire Council Renfrew Common Good Fund**

## **Investment Policy Statement**

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