

To: Investment Review Board

On: 18 November 2020

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 30 September 2020

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, 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 2020. Hymans Robertson LLP will be represented at the meeting by David Millar (Associate Consultant), who will present his report to Members.
 - 1.3 A presentation from Gair Brisbane, Head of Charities (Scotland), Aberdeen Standard Capital Limited, will be provided relative to the performance of the Paisley and Renfrew Common Good Fund investments.
-

2. **Recommendations**

- 2.1 To consider the attached report from Hymans Robertson LLP and the written presentation by Aberdeen Standard Capital Limited.

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: Richard Conway, Finance Manager (Financial Accounting)
0141-618 7377
richard.conway@renfrewshire.gov.uk

Renfrewshire Council Common Good Funds

Review of Investment Managers' Performance for the 6 Months to 30 September 2020







Prepared by:

David Millar- Associate Consultant

For and on behalf of Hymans Robertson LLP

November 2020

Contents

	Page
 Markets	
Historic Returns for World Markets to 30 September 2020	3
 Portfolio Summary	
Paisley Common Good Fund	4
Renfrew Common Good Fund	5
 Fund Specific Asset Allocation and Performance	
Paisley Common Good Fund	6
Renfrew Common Good Fund	7
 Appendices	
Asset Allocation	8
Performance by Asset Class	9
Explanation of Performance Calculations	10

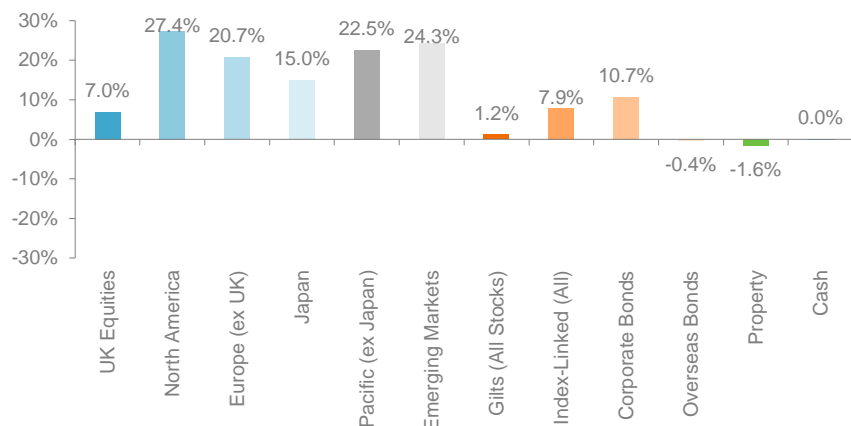
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile 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.

Hymans Robertson LLP, has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss arising from their use.

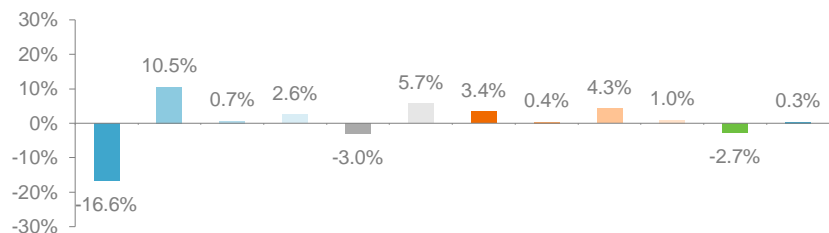


Historic Returns for World Markets to 30 September 2020

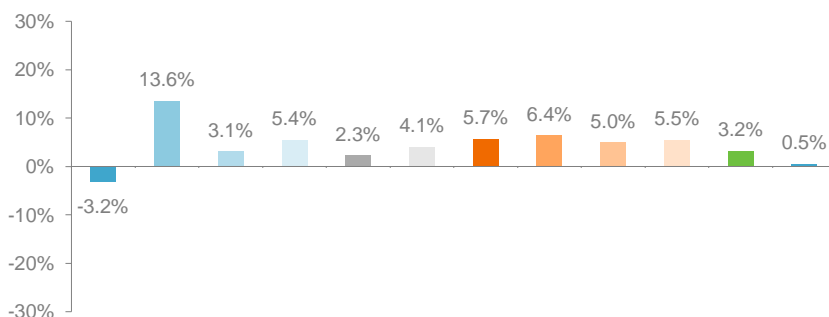
6 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comments.

First releases of Q3 GDP showed a sharp rebound in activity, following Q2's record-breaking declines. High frequency activity data showed a plateauing of the recovery in the US and evidence of a renewed downturn in the UK and Europe, even prior to the imposition of new restrictions. The IMF World Economic Outlook forecasts global growth in 2020 will contract 4.4% this year followed by a 5.2% expansion next, leaving two-year global aggregate output a little above its end-2019 level.

Over the past six months most economies have seen core inflation fall. UK CPI inflation fell from 1.5% in March to 0.5% in September, having reached its lowest level since December 2015 of 0.2% in August.

In response to falling global growth and inflation, the US Federal Reserve (the Fed) and the Bank of England (BoE) cut rates to record low levels and the European Central Bank and Bank of Japan have joined the Fed and the BoE in announcing large expansions of their quantitative easing programs. The Fed's shift to "flexible" average inflation targeting, allowing above-target inflation to make up for periods of below-target inflation, likely means interest rate rises are even further away than previously envisaged.

Despite economic uncertainty global sovereign bond yields were relatively unchanged over the period. 10-year gilt implied inflation drifted higher as real yields fell and nominal yields moved marginally higher.

Credit spreads have seen a sharp snapback since the material widening witnessed in March. Investment-grade spreads fell from 2.8% p.a. in March to 1.4% p.a. in September. Unsurprisingly, the reversal was more significant in speculative grade credit spreads which fell from 9.2% p.a. to 5.6% p.a. over the same period.

Similarly, global equity markets have rebounded strongly since the sell-off in Q1. Since the end of March, global equities have experienced a 27% rise and are now in positive territory year-to-date. The rebound in equity markets has been far from uniform with the US leading the way and the UK a stand-out underperformer. From a sector perspective technology extended its large year-to-date lead at the top of the performance rankings while oil & gas massively underperformed, cementing its place at the bottom.

The lasting effects of the pandemic on the property market are evident with capital values having fallen 4.3% over the past 6 months. A large part of this can be attributed to the retail sector which has seen capital values fall 9.1% over the period.



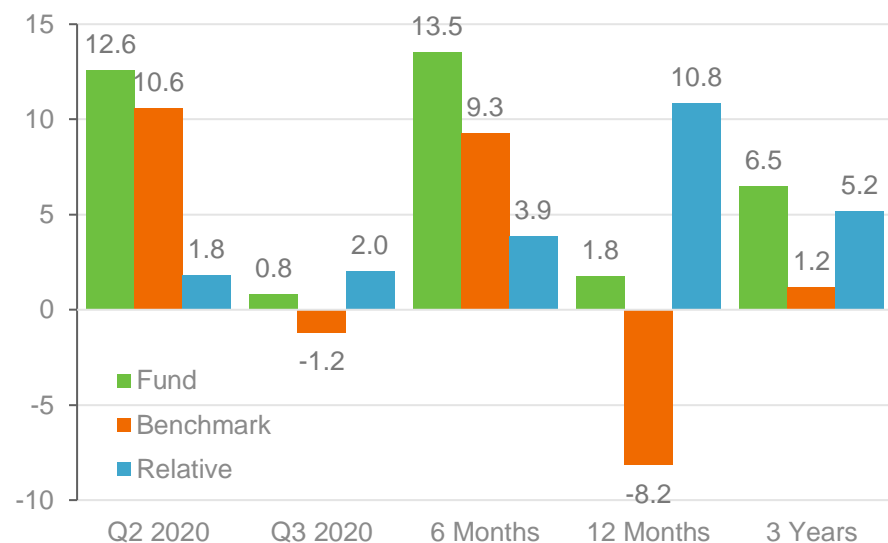
Paisley Common Good Fund: Portfolio Summary

Valuation Summary

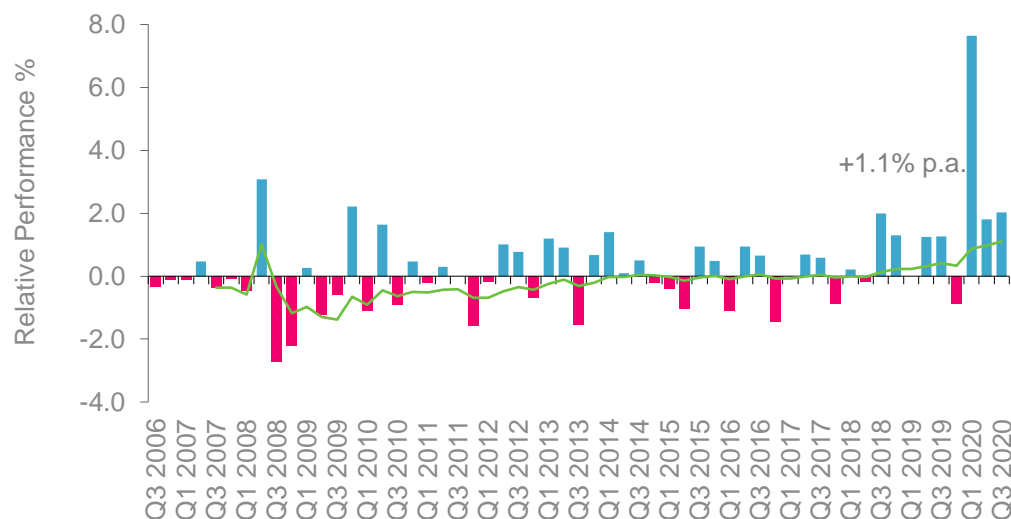
	Values (£m)		Actual Proportion %	Target Proportion %	Difference %	(Standard Life) Estimated Annual Income			Target
	31/03/2020	30/09/2020				31/03/2020	30/06/2020	30/09/2020	
UK Equities	1.499	1.613	36.7	60.0	-23.3				
International	1.682	2.025	46.0	20.0	26.0				
UK Bonds	0.526	0.545	12.4	18.0	-5.6				
International	0.119	0.133	3.0	0.0	3.0				
Property	0.000	0.000	0.0	0.0	0.0				
Cash/Other	0.113	0.083	1.9	2.0	-0.1				
Total	3.939	4.399	100.0%	100.0%		£151,532	£141,881	£135,532	£113,000

Estimated income includes UK equity dividends on a net, cash received, basis.

Performance Summary



Relative Quarterly and Relative Cumulative Performance



Renfrew Common Good Fund: Portfolio Summary

Valuation Summary

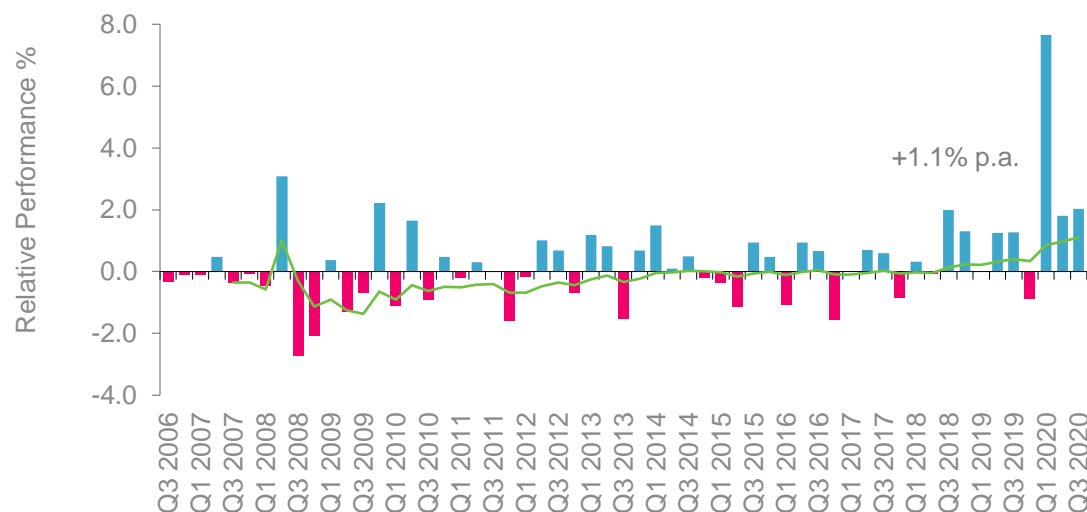
	Values (£m)		Actual Proportion %	Target Proportion %	Difference %	(Standard Life) Estimated Annual Income			Target
	31/03/2020	30/09/2020				31/03/2020	30/06/2020	30/09/2020	
UK Equities	5.050	5.495	37.0	60.0	-23.0				
International	5.697	6.840	46.0	20.0	26.0				
UK Bonds	1.724	1.719	11.6	18.0	-6.4				
International	0.455	0.507	3.4	0.0	3.4				
Property	0.000	0.000	0.0	0.0	0.0				
Cash/Other	0.388	0.307	2.1	2.0	0.1				
Total	13.313	14.869	100.0%	100.0%		£511,672	£478,858	£ 457,019.00	£380,000

Estimated income includes UK equity dividends on a net, cash received, basis.

Performance Summary



Relative Quarterly and Relative Cumulative Performance



Paisley Common Good Fund: Allocation and Performance

Commentary on Paisley Common Good Fund

The Fund, in aggregate, returned 13.5% between end March 2020 (the effective date of the immediately preceding report) and end September 2020; over the same period, the benchmark achieved a return of 9.3%. The performance over the period reflects the market recovery (equities and corporate bonds) since the downturn and market volatility witnessed in March 2020 as a result of containment measure put in place by governments across the globe due to the spread of Covid-19.

The Fund's outperformance in Q2 was driven by allocations to the best performing sectors, healthcare and technology. Allocation to the renewables sector and good stock selection within it was also beneficial. In Q3, it was asset allocation that drove returns with stock selection marginally negative, allocations to technology and utilities (continuing to be positive). Underweighting Oil and Gas was beneficial. Infrastructure and renewables outperformed the equity market, so allocations to these areas boosted performance. Overweighting UK equities and corporate bonds continues to be positive.

Over 12 months, fund returns are positive in absolute terms (+1.8%) and significantly ahead of the benchmark return of -8.2%. Since the inception of the mandate, on 1 July 2006, the Fund return of +7.1% p.a. is strong in absolute terms and ahead of the benchmark return of +5.9% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end of September 2020, the allocation to equities (82.7%) was above the benchmark allocation (80%). The portfolio continues to be underweight in UK equities and overweight in overseas equities. This reflects the investment manager's global investment perspective (and a view on Brexit where they maintain a global perspective avoiding domestic UK companies). The underweighting to UK equities has been beneficial as UK equities have lagged other regions significantly over the year and have not recovered as far from the falls in March.

The exposure to bonds was 15.4% at end September 2020 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2019 was 1.9% (broadly in-line with the benchmark allocation). The manager favours corporate bonds which have outperformed gilts over the last 6 months and this has benefitted performance relative to benchmark.

Performance Summary

Paisley CGF		
6 Months (%)	Fund	13.5
	Benchmark	9.3
	Relative	3.9
12 Months (%)	Fund	1.8
	Benchmark	-8.2
	Relative	10.8
3 years (%)	Fund	6.5
	Benchmark	1.2
	Relative	5.2
Since Inception (% p.a.) (1 July 2006)	Fund	7.1
	Benchmark	5.9
	Relative	1.1



Renfrew Common Good Fund: Allocation and Performance

Commentary on Renfrew Common Good Fund

The Fund, in aggregate, returned 13.5% between end March 2020 (the effective date of the immediately preceding report) and end September 2020; over the same period, the benchmark achieved a return of 9.3%. The performance over the period reflects the market recovery (equities and corporate bonds) since the downturn and market volatility witnessed in March 2020 as a result of containment measure put in place by governments across the globe due to the spread of Covid-19.

The Fund's outperformance in Q2 was driven by allocations to the best performing sectors, healthcare and technology. Allocation to the renewables sector and good stock selection within it was also beneficial. In Q3, it was asset allocation that drove returns with stock selection marginally negative, allocations to technology and utilities (continuing to be positive). Underweighting Oil and Gas was beneficial. Infrastructure and renewables outperformed the equity market, so allocations to these areas boosted performance. Overweighting UK equities and corporate bonds continues to be positive.

Over 12 months, fund returns are positive in absolute terms (+1.8%) and significantly ahead of the benchmark return of 8.2%. Since the inception of the mandate, on 1 July 2006, the Fund return of +7.1% p.a. is strong in absolute terms and ahead of the benchmark return of +5.9% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end of September 2020, the allocation to equities (83.0%) was above the benchmark allocation (80%). The portfolio continues to be underweight in UK equities and overweight in overseas equities. This reflects the investment manager's global investment perspective (and a view on Brexit where they maintain a global perspective avoiding domestic UK companies). The underweighting to UK equities has been beneficial as UK equities have lagged other regions significantly over the year and have not recovered as far from the falls in March.

The exposure to bonds was 15.0% at end September 2020 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end September 2019 was 2.1% (broadly in-line with the benchmark allocation). The manager favours corporate bonds which have outperformed gilts over the last 6 months and this has benefitted performance relative to benchmark.

Performance Summary

Renfrew CGF		
6 Months (%)	Fund	13.5
	Benchmark	9.3
	Relative	3.9
12 Months (%)	Fund	1.8
	Benchmark	-8.2
	Relative	10.8
3 years (%)	Fund	6.5
	Benchmark	1.2
	Relative	5.3
Since Inception (% p.a.) (1 July 2006)	Fund	7.1
	Benchmark	5.9
	Relative	1.1



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Appendix 1: Asset Allocation

Paisley Common Good Fund

Asset Allocation

31 March 2020

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	38.1%	-21.9%
International Equities	20.0%	42.7%	22.7%
UK Bonds	18.0%	13.4%	-4.6%
International Bonds	0.0%	3.0%	3.0%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.9%	0.9%
Total	100.0%	100.0%	0.0%

Asset Allocation

30 September 2020

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	36.7%	-23.3%
International Equities	20.0%	46.0%	26.0%
UK Bonds	18.0%	12.4%	-5.6%
International Bonds	0.0%	3.0%	3.0%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	1.9%	-0.1%
Total	100.0%	100.0%	0.0%

Renfrew Common Good Fund

Asset Allocation

31 March 2020

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	37.9%	-22.1%
International Equities	20.0%	42.8%	22.8%
UK Bonds	18.0%	12.9%	-5.1%
International Bonds	0.0%	3.4%	3.4%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.9%	0.9%
Total	100.0%	100.0%	0.0%

Asset Allocation

30 September 2020

Asset Class	Benchmark	Fund	Difference
UK Equities	60.0%	37.0%	-23.0%
International Equities	20.0%	46.0%	26.0%
UK Bonds	18.0%	11.6%	-6.4%
International Bonds	0.0%	3.4%	3.4%
Property	0.0%	0.0%	0.0%
Cash/Other	2.0%	2.1%	0.1%
Total	100.0%	100.0%	0.0%



Renfrewshire Council Common Good Funds

Hymans Robertson LLP

Appendix 2: 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	2.0	1.3	4.4	3.5	0.1	0.3	0.0	0.1
Corporate Bonds	9.8	8.1	3.3	3.9	0.7	0.3	0.6	0.1
International Bonds	13.4	-0.2	3.2	1.6	0.4	0.1	0.4	0.1
UK Equities	7.8	7.0	-16.2	-16.5	3.1	-5.4	0.3	0.1
Overseas Equities	20.9	24.8	15.4	6.6	8.9	6.8	-1.4	3.4
Total Assets	13.5	9.3	1.8	-8.2				

Estimated Contribution to relative returns from asset allocation 4.3 6.2

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	2.0	1.3	4.2	3.5	0.1	0.3	0.0	0.1
Corporate Bonds	9.7	8.1	3.3	3.9	0.6	0.2	0.5	0.1
International Bonds	13.5	-0.2	3.1	1.6	0.5	0.1	0.5	0.1
UK Equities	7.8	7.0	-16.2	-16.5	3.1	-5.4	0.3	0.1
Overseas Equities	20.9	24.8	15.4	6.6	8.9	6.8	-1.4	3.4
Total Assets	13.5	9.3	1.8	-8.2				

Estimated Contribution to relative returns from asset allocation 4.3 6.1



Appendix 3: 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.