

Notice of Meeting and Agenda Investment Review Board

| Date | Time | Venue |
|-------------------------|-------|----------------|
| Wednesday, 09 June 2021 | 11:00 | Teams Meeting, |

KENNETH GRAHAM
Head of Corporate Governance

Membership

Councillor John McIntyre: Councillor Iain Nicolson: Councillor Jim Sharkey:

Councillor John Shaw (Convener): Councillor Jim Paterson (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 07934714023. To find the recording please follow the link which will be attached to this agenda once the meeting has concluded. <https://youtu.be/OFz-RJOB-JY>

Items of business

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.

- | | | |
|----------|---|----------------|
| 1 | Minute of Previous Meeting | 1 - 4 |
| | Minute of previous meeting held on 18 November 2021. | |
| 2 | Investment Policy Statement | 5 - 14 |
| | Report by Director of Finance & Resources. | |
| 3 | Paisley and Renfrew Common Good Funds: review of investment and income performance | 15 - 40 |
| | Report by 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 David Millar, Associate Consultant, Hymans Robertson LLP. Subsequent to this, Gair Brisbane, Head of Charities (Scotland), Aberdeen Standard Capital Limited, will deliver a presentation relative to the performance of the Paisley and Renfrew Common Good Fund investments. | |
| 4 | Investment Management | 41 - 44 |
| | Report by Director of Finance & Resources | |
| 5 | Date of Next Meeting | |
| | Members are asked to note that the next meeting of the Board is scheduled for Wednesday 19 November 2021 at 11.00 am. | |

Minute of Meeting Investment Review Board

| Date | Time | Venue |
|-----------------------------|-------|----------------|
| Wednesday, 18 November 2020 | 11:00 | Teams Meeting, |

Present

Councillor Iain Nicolson, Councillor Jim Sharkey, Councillor John Shaw

Chair

Councillor Shaw, Convener, presided.

In Attendance

A MacArthur, Head of Finance, T Slater, Senior Committee Services Officer and P Shiach, Committee Services Officer (all Finance & Resources).

Also in Attendance

D Millar, Senior Investment Analyst, Hymans Robertson LLP.

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 20 November 2019.

DECIDED: That the Minute be approved, subject to an amendment to item 3, paragraph 1 which should read “fair value” and not “fir value”.

2 Review of Statement of Investment Principles

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 indicated that the Council had arranged for the investments of the Paisley and Renfrew Common Good Funds to be managed by Aberdeen Standard Capital Limited and had agreed with the manager a number of principles which governed decisions regarding these investments. These principles covered a range of issues such as what benchmark should be employed against which to assess the manager’s performance, and any restrictions which the manager required to observe when choosing sectors or classes of asset in which to invest. The requirements were formalised in a Statement of Investment Principles document, which was reviewed periodically to ensure that the principles contained therein remained appropriate to the requirements of the Common Good Funds.

The report advised that the Statement of Investment Principles had last been reviewed in November 2019 and was due for review. It was proposed that no changes be made to the existing Statement.

The Head of Finance referred to discussions which had taken place at the last meeting in relation to a potential amendment to the Investment Principles to reflect the decision of the Council to support Climate Emergency measures. He indicated that an appendix had been added to Statement on a suggested route for the Board making any changes to the Principles. Any decisions in this regard would require to be taken in the full understanding by the Board of what the potential investment return and investment strategy implications may be.

The Head of Finance and the Senior Investment Analyst, Hymans Robertson LLP were then heard in answer to questions from members on the report.

DECIDED:

- (a) That the Statement of Investment Principles attached to this report be approved;
- (b) That the attached “pathway” briefing note prepared by Aberdeen Standard Capital Limited, be approved; and
- (c) That it be noted that any proposed change to the investing approach would require to be considered and agreed at a subsequent Investment Review Board meeting, and that such a change in approach would require to be reflected in an updated Statement of Investment Principles to be approved by Members.

Recording of Dissent

Councillor Sharkey, being the mover of an amendment, which failed to find a seconder asked that his dissent be recorded in terms of Standing Order 24.

3 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 performance of the Paisley and Renfrew Common Good Funds during the six-months to 30 September 2020. A performance review by Hymans Robertson LLP was attached as an appendix to the report.

The Senior Investment Analyst advised that there had been a significant fall in the markets during Quarter 1 as a result of the coronavirus pandemic. However there had been a significant recovery during the last 6 months. Equities were performing well, particularly overseas equities, and corporate bonds had recovered and were outperforming gilts.

The Senior Investment Analyst indicated that the value of the Paisley Common Good Fund had increased slightly from £3.939m on 31 March 2020 to £4.399m on 30 September 2020. During the same period, the Renfrew Common Good Fund assets had risen from £13.313m to £14.869m. Both portfolios had met their income targets although estimated income had decreased slightly, reflective of the economic climate. He indicated that the asset allocation had not changed significantly in the last 12 months, and that the portfolios had performed well, outperforming the benchmark during challenging economic conditions. In addition, the Senior Investment Analyst provided information on the performance of the markets from 30 September to 18 November, which indicated continuing recovery.

The Senior Investment Analyst was then heard in answer to questions from members on the report.

The Head of Finance then provided a presentation on behalf of the Investment Manager relative to the performance of the Paisley and Renfrew Common Good Fund investments. The presentation included information in relation to investment guidelines for Common Good Funds; long-term performance of the Funds; asset contribution to Common Good Funds; and investment restrictions.

DECIDED: That the report and presentations be noted.

4 Date of Next Meeting

It was noted that the next meeting of the Investment Review Board was scheduled for Wednesday 9 June 2021 at 11am.

DECIDED: That the information be noted.



To: Investment Review Board

On: 9 June 2021

Report by: Director of Finance and Resources

Heading: Investment Policy Statement

1. Summary

- 1.1 At the previous Investment Review Board meeting of 18 November 2020, a report was presented outlining a suggested “pathway” to reflect climate change matters in the investment portfolios of the Paisley and Renfrew Common Good Funds. The pathway, prepared by the Council’s Investment Manager, Aberdeen Standard Capital Limited (“ASC”), set out an approach that Members could use to develop an investment policy that would reflect the decision of the Council to support Climate Emergency measures.
- 1.2 Following on from November’s Board meeting, Members attended a workshop on 26 January 2021 along with Julie Hutchison (Charity Specialist) and Gair Brisbane (Head of Charities (Scotland)), both of ASC, as well as Renfrewshire Council officers, to discuss and prepare appropriate updates to the investment policy. This updated policy takes the form of an “Investment Policy Statement”, intended to replace the existing “Statement of Investment Principles”, and a draft is attached to this report for Members’ consideration.
- 1.3 The scope and content of the proposed Investment Policy Statement is similar to that of the existing Statement of Investment Principles. The key changes are within the section on “Investment Manager restrictions”, including updates to the ethical screening criteria that are intended to support the Council’s decision to support Climate Emergency measures.

2. **Recommendations**

- 2.1 Members are requested to consider and approve the Investment Policy Statement attached to this report, as a replacement for the existing Statement of Investment Principles (which was approved at the previous Board meeting on 18 November 2020), thus implementing updates to the ethical screening criteria.

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** – the Statement of Investment Principles outlines a medium level of risk to be adopted by the Investment Manager.

11. **Privacy Impact** – none
 12. **COSLA Policy Position** – none
 13. **Climate Risk** – none
-

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 Aberdeen Standard 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, Aberdeen Standard 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 Aberdeen Standard 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 Aberdeen Standard 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 Aberdeen Standard 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 minimum of 15% 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 Aberdeen Standard 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.

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

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Frequency of review

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



To: Investment Review Board

On: 9 June 2021

Report by: Director of Finance and Resources

Heading: Paisley and Renfrew Common Good Funds
six-month report to 31 March 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, Aberdeen Standard Capital Limited.
- 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 2021. Hymans Robertson LLP will be represented at the meeting by David Millar (Associate Consultant), who will present his report to Members.
- 1.3 Gair Brisbane, Senior Charity Portfolio Manager, Aberdeen Standard 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.

2. **Recommendations**

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

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Renfrewshire Council

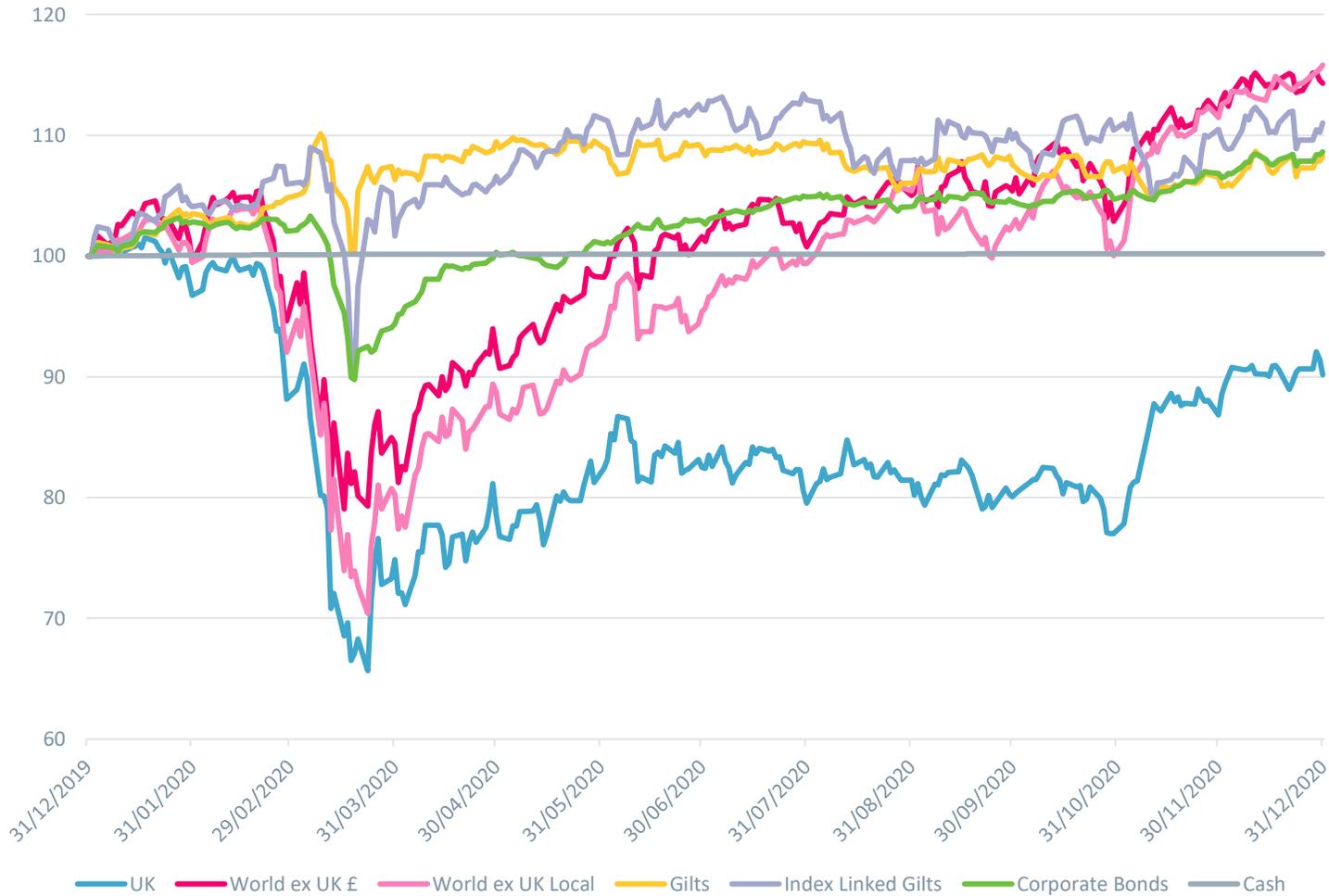
Meeting Papers – Markets Update

David Millar

9 June 2021

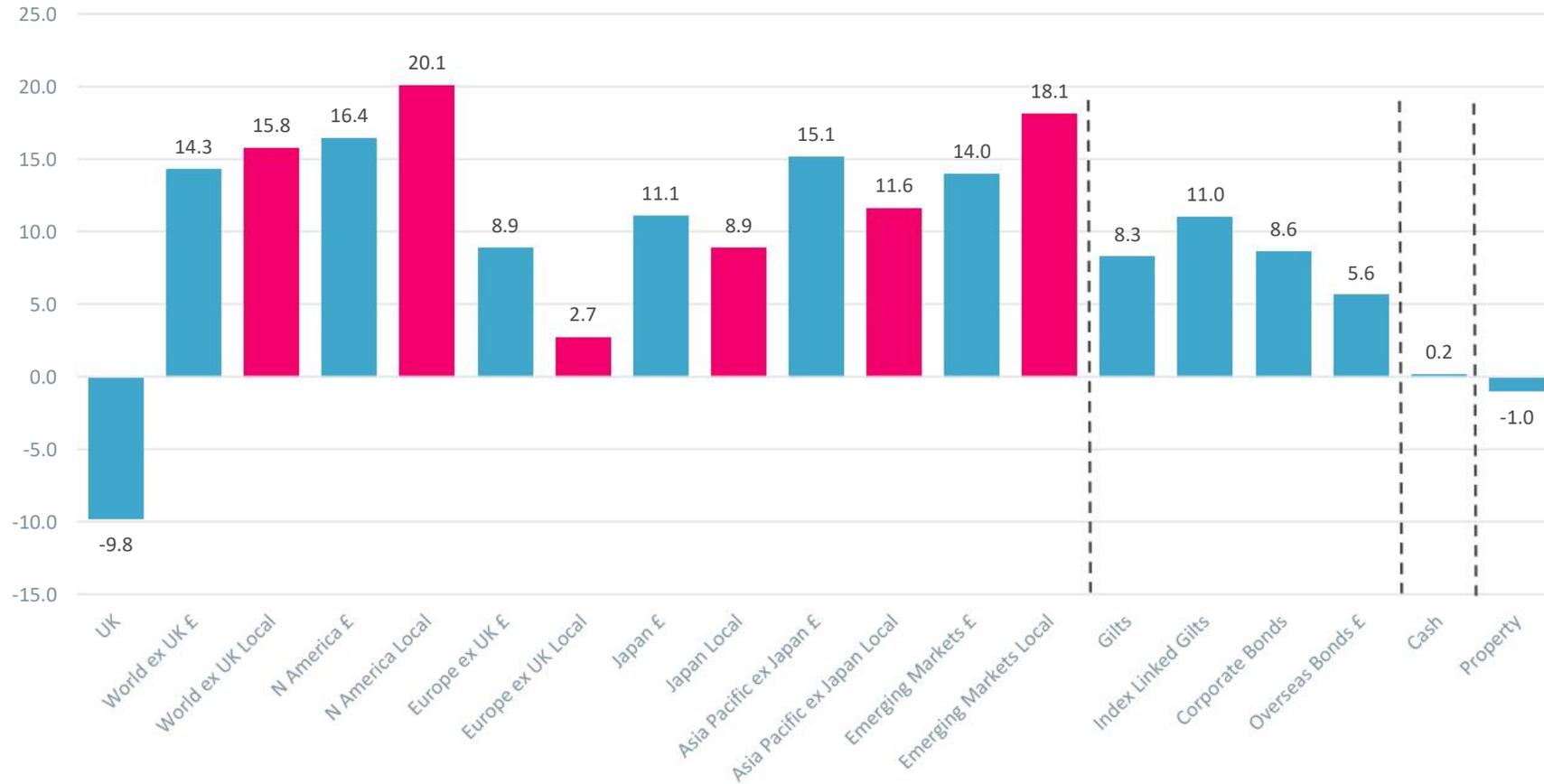


Markets in 2020

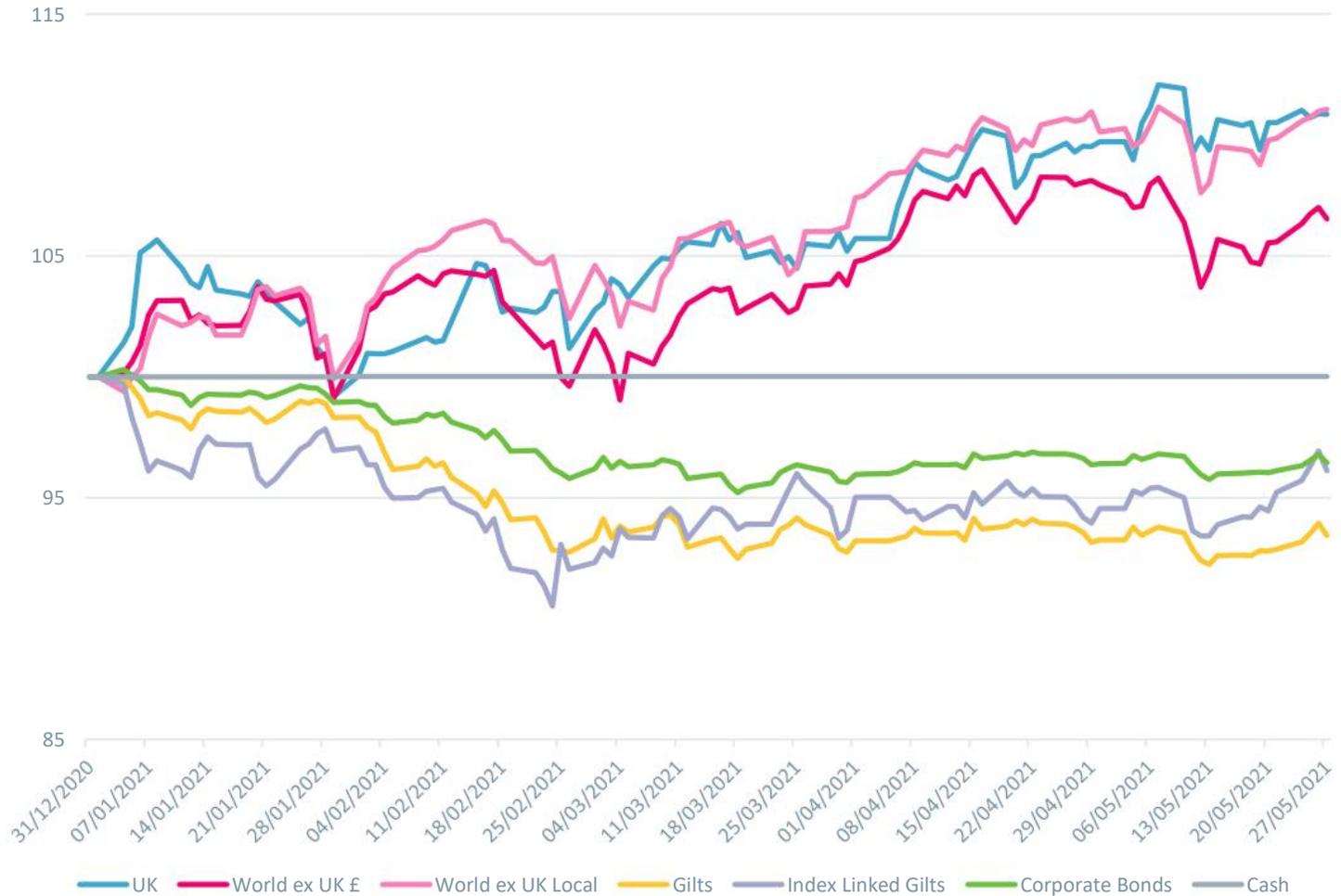


- Significant fall in equity (and corporate bond markets) in wake of Coronavirus crisis in quarter 1 2020.
- Equity markets down c30% but government bonds more resilient.
- Recovery since then, by end of the year only UK equities and property remained in negative territory for the year

2020 – Calendar year returns

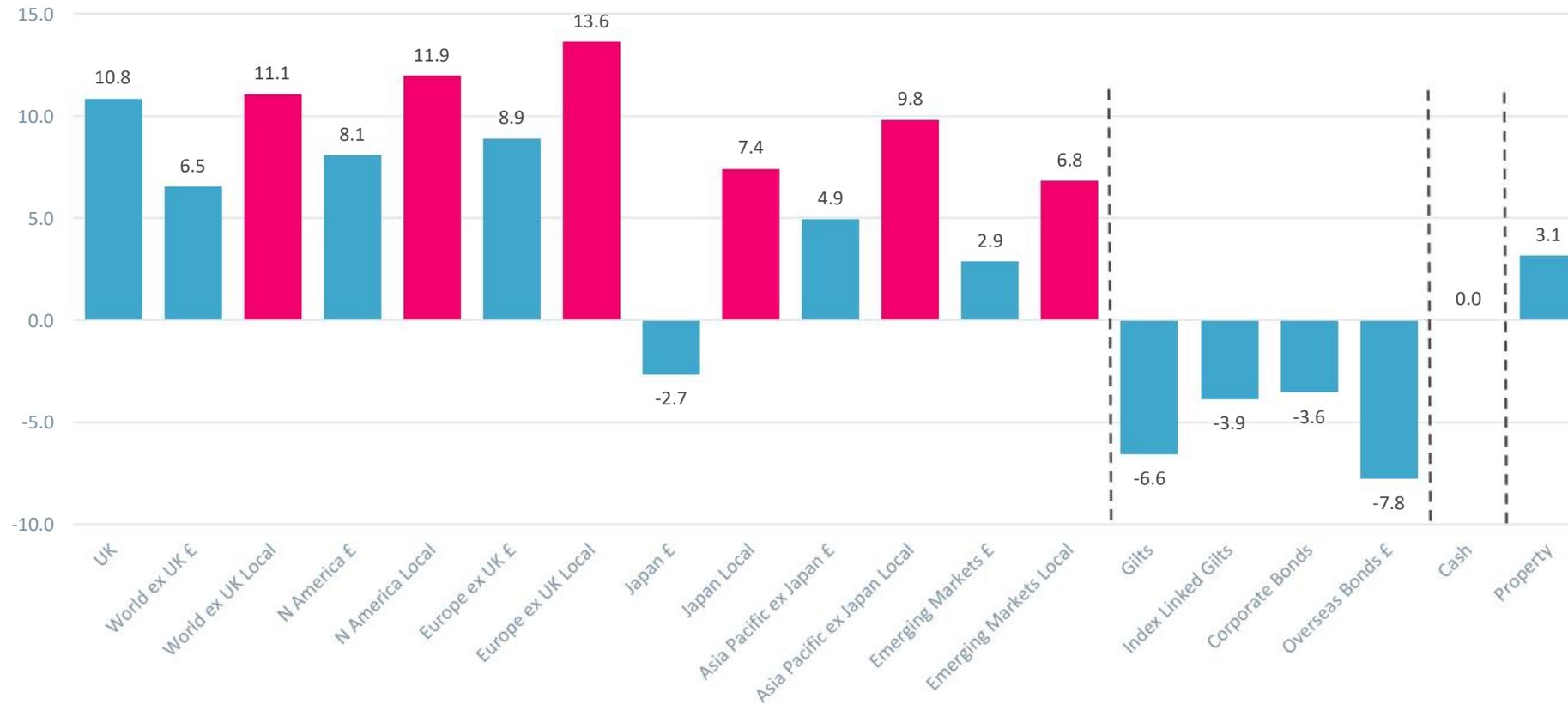


And into 2021



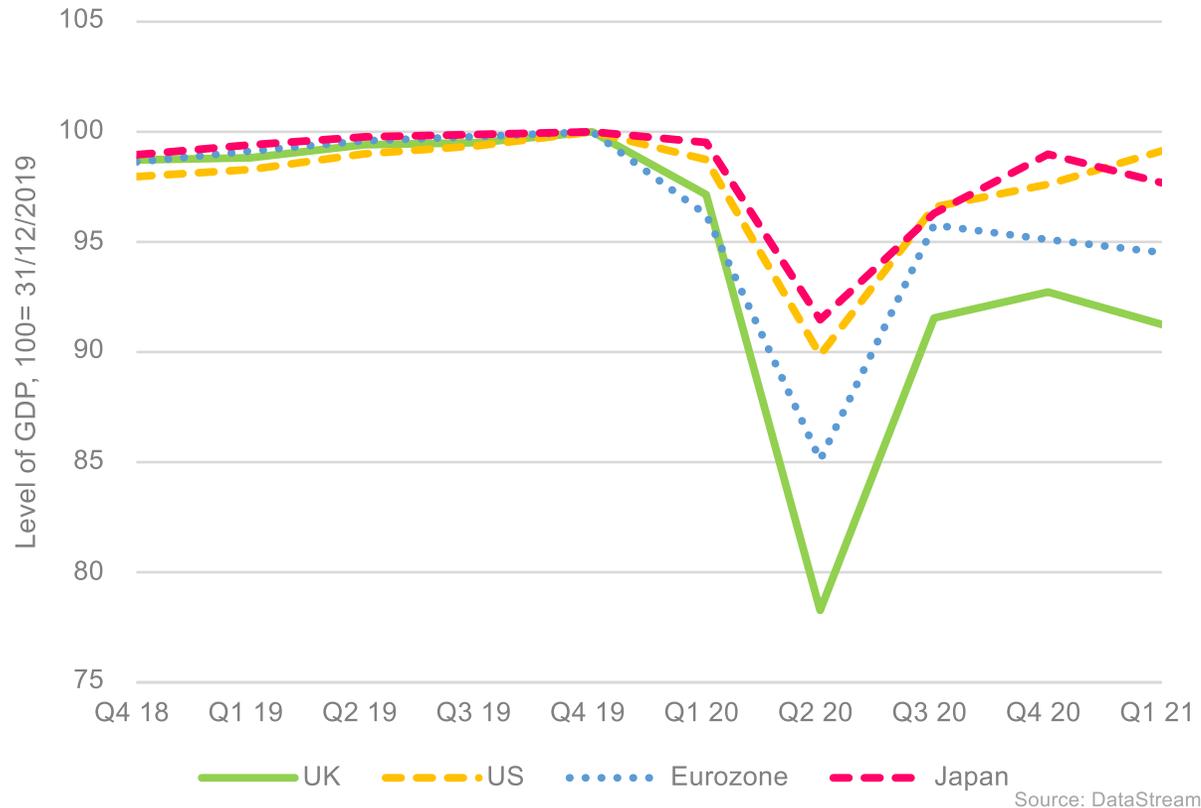
- Continued recovery in equity markets
- Sterling appreciation has meant the return from overseas equities has been weakened for sterling based investors (local currency overseas returns similar to UK equities)
- Bonds in contrast have fallen back in 2021

2021 – returns to 27th May



Economic Background

GDP Growth



Recent data confirm that although the quarterly pace of global growth slowed in Q1 2021 after a robust H2 2020, the hit to activity from tighter restrictions has been less than feared.

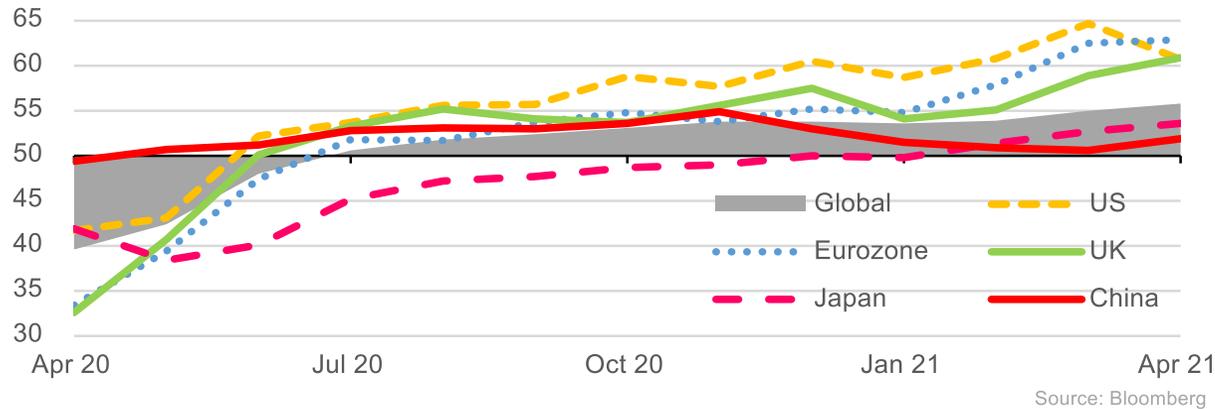
The US economy expanded 1.6% quarter-on-quarter, as household spending started to show the impact of fiscal stimulus, and the 0.6% contraction in the Eurozone was much smaller than economists had expected. Recent UK GDP figures have also outperformed expectations.

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, a marked acceleration in global GDP growth is expected from Q2 as restrictions begin to ease.

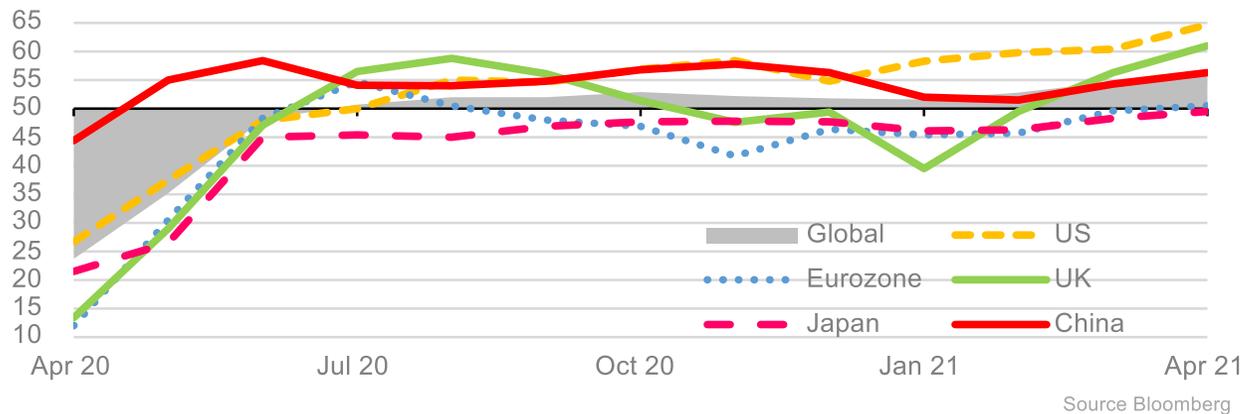
As a result, April's consensus forecasts for global growth in 2021 rose to 5.7%. Recent upgrades see output in many advanced economies, on both sides of the Atlantic, now reaching pre-pandemic levels by the end of the year, much faster than economists previously feared.

PMI

Manufacturing



Services



Despite the ongoing rise in new COVID-19 cases, survey data for April suggest that the deterioration in the global health situation is not having an obviously adverse impact on the global economy.

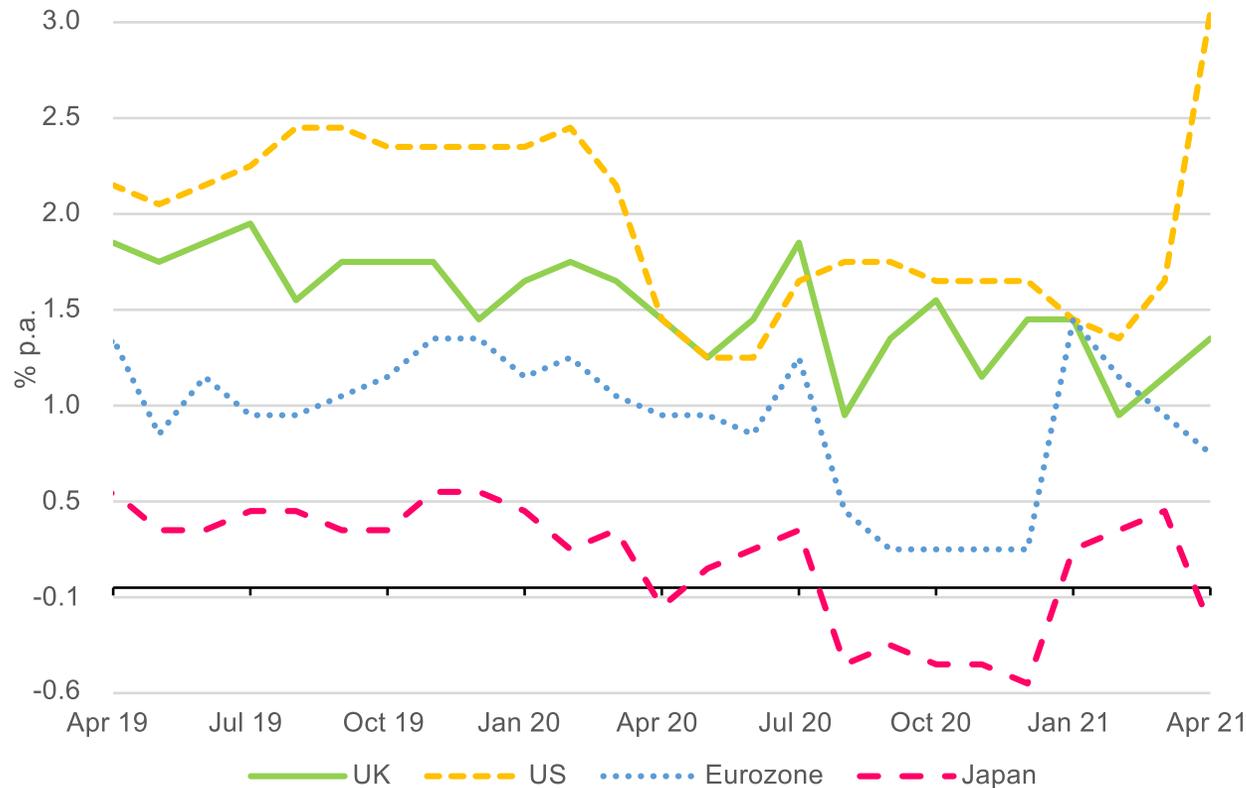
The eurozone composite PMI rose in April and, despite high infection numbers in parts of the region, the services component edged above the 50 “no-change” mark for the first time since August 2020.

Amid an easing of restrictions, the UK composite PMI rose to the highest level since 2013 and the US index rose to its highest ever reading.

However, input prices have continued to rise, lead-times are at a record long, there are shortages of critical basic materials, commodity prices are rising and there remains transport problems.

Employment at a global level remains well below pre-pandemic levels but gains have accelerated recently, particularly in the US and UK. US unemployment has fallen from April 2020’s 14.7% peak to 6.0% in March

Inflation



Source: DataStream

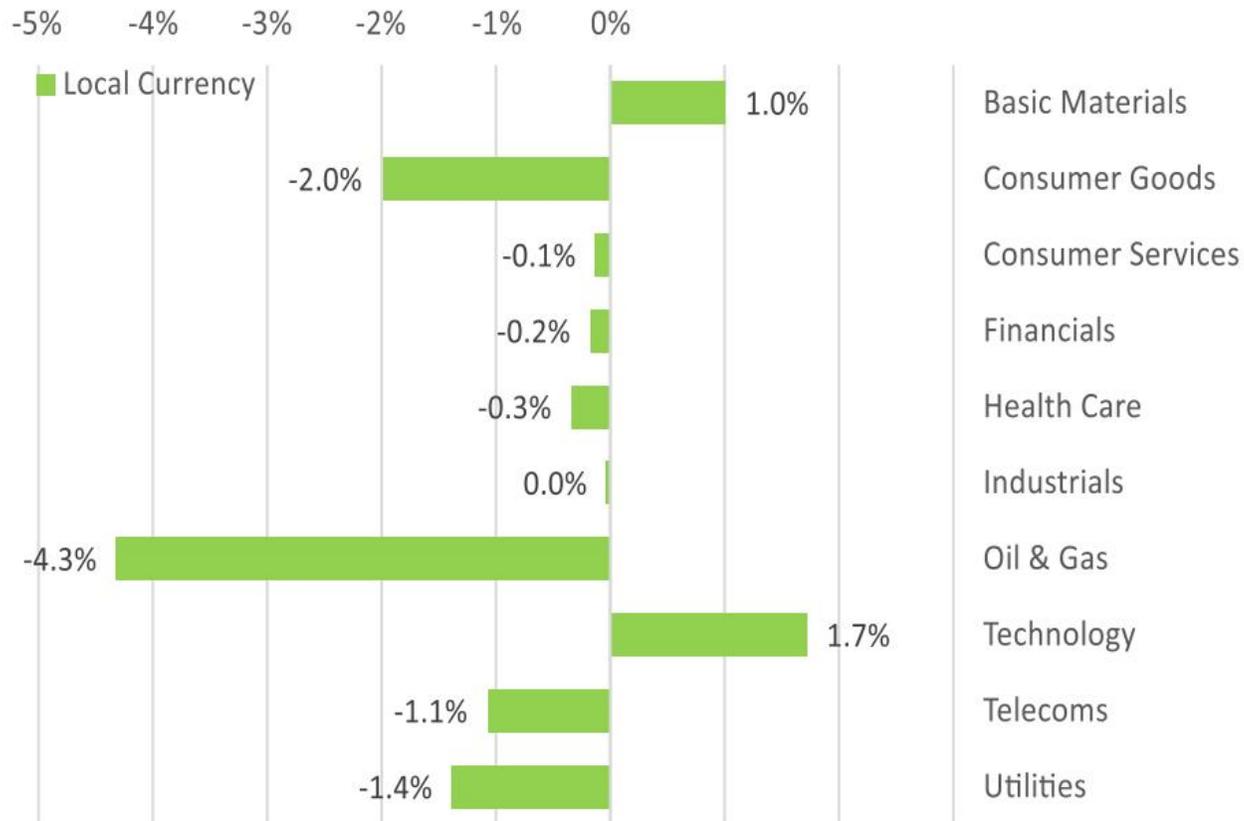
UK headline CPI inflation rose to 1.5% year-on-year in April, from 0.7% in March, due to increases in the price of utility, clothing and transport. Core inflation, which excludes volatile elements like alcohol and fuel, rose, to 1.3% year-on-year in April.

A pick-up in US inflation was expected, but April's 4.2% year-on-year increase in US headline CPI massively surprised to the upside, as did the increase in underlying core inflation. This is primarily a reflection of how far prices fell last year, with a strong rebound always likely, but manufacturers have been facing supply bottlenecks and consumer spending has surged as lockdown restrictions ease and stimulus cheques arrive. Job surveys also point to businesses finding it difficult to fill positions in some sectors. While policy makers appear confident that many of these factors will prove temporary, it will likely take towards the end of the year to ascertain how persistent inflationary pressures are.

Consensus forecasts are for a recovery in inflation in the UK in 2021 to be followed by a modest increase in 2022.

Equity Sectors

Relative performance of sectors to end April 201



Global Sector returns relative to FTSE All World Index 31 Mar 2021 to 30 Apr 2021. Source: Datastream

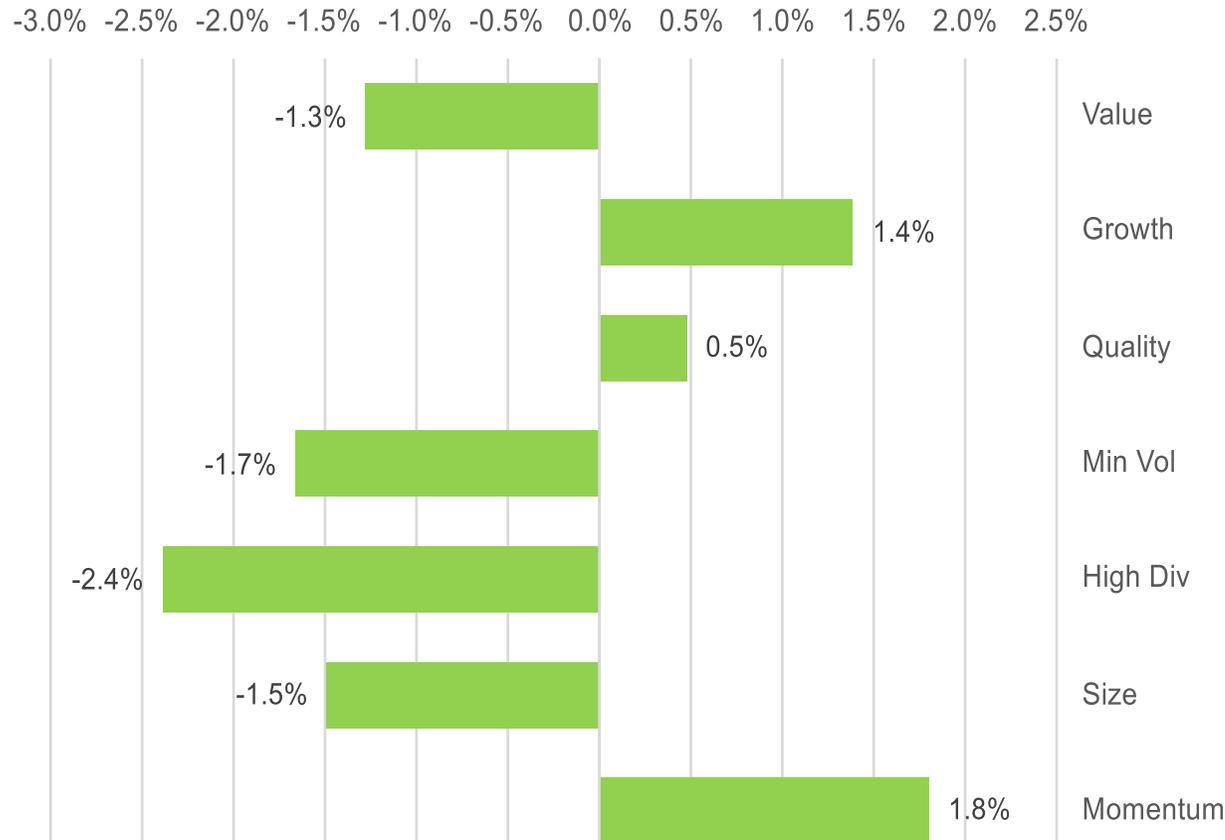
The rotation into more cyclical sectors seen in the first quarter paused in April as US treasury yields retraced a small part of their recent rise. Very strong earnings releases and an easing of pressure on valuations from rising sovereign bond yields helped technology to outperform (discounting back future earnings using a lower yield means an increased “present value” and makes the companies look more attractive).

The main laggards were oil & gas and consumer goods. Though oil prices have risen steadily this year, concerns over rising COVID-19 cases in India, the third largest importer of oil, weighed on oil major’s share prices.

Durable consumer goods orders disappointed in March – potentially highlighting the beginning of a shift in consumer spending from goods to services as economies re-open.

Equity Factors

Relative performance of sectors to end April 201



MSCI Global Factor indices returns relative to MSCI ACWI Index (Local Curr) 31 Mar 2021 to 30 Apr 2021. Source: Datastream

Since mid-March cyclical value stocks stopped outperforming growth and quality. Value underperformance is mainly due to underperformance in the energy sector.

Momentum and growth were the best performing factors in April given strong performance in technology stocks, especially the mega cap names listed in the US which reported strong earnings.

High dividend, minimum volatility and size factors also underperformed.

Thank you

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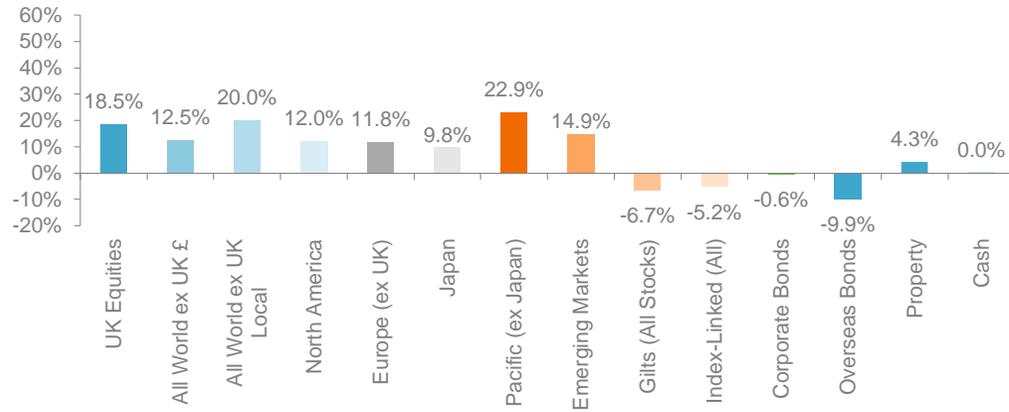
Renfrewshire Council Common Good Funds

Review of Investment Managers'
Performance for the 6 months to 31
March 2021

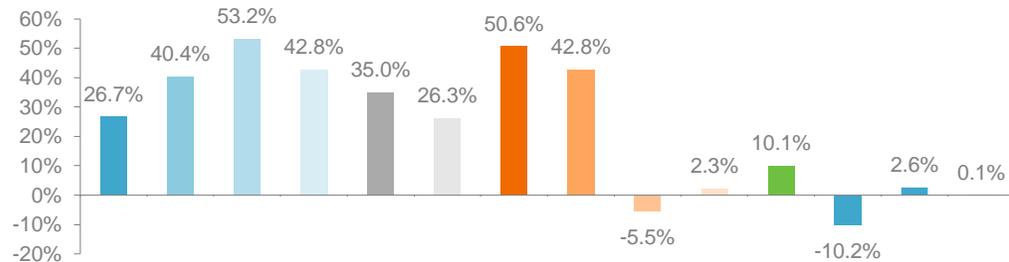


Market Background – 6 Months to 31 March 2021^[1]

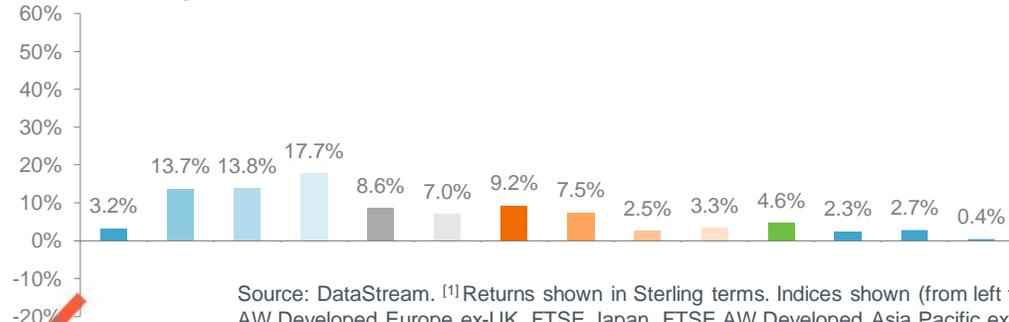
6 Months %



12 Months %



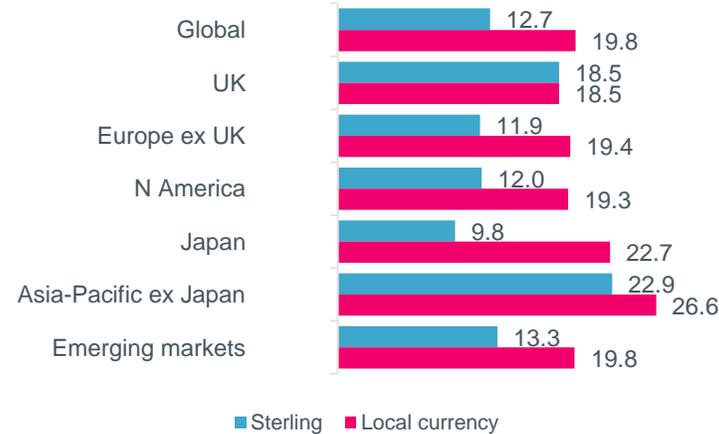
3 Years % p.a.



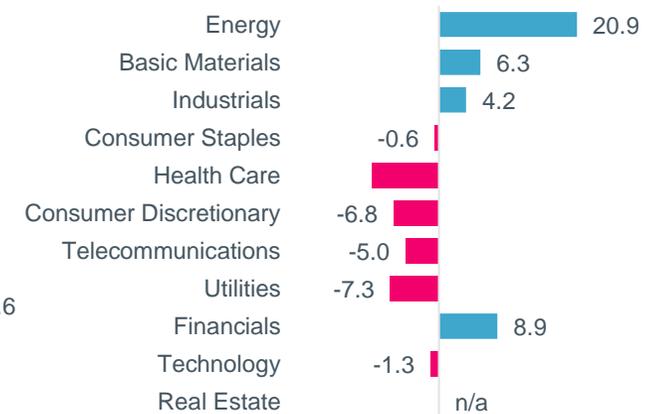
Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020. Recent data confirms that although the quarterly pace of global growth slowed in Q1 after a robust H2 2020, the hit to activity from tighter restrictions has been less than initially feared. Expectations of a re-acceleration of growth beyond Q2 seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March's global composite PMI rose to its highest level in over 6 years.

Global equity markets rose 20% in local currency terms as the improving economic outlook supported more cyclical sectors and rising sovereign bond yields benefitted financials: energy, financials, basic materials and industrials were the best performing sectors, in that order. The typically defensive healthcare, utilities, and telecoms sectors underperformed. Despite this, there was relatively little dispersion in regional returns: Japan and Asia ex-Japan outperformed, as currency weakness and a recovery in global trade supported these export-orientated indices. Despite a higher than average exposure to energy and financials, the UK market underperformed, perhaps weighed down by sterling strength given the high proportion of overseas earnings in the index. The US market also slightly underperformed given its typically more defensive earnings profile.

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 IC structure in 1/2021 – returns for Real Estate will be included when there is a sufficient track record.

Valuation and Performance - Paisley Common Good Fund

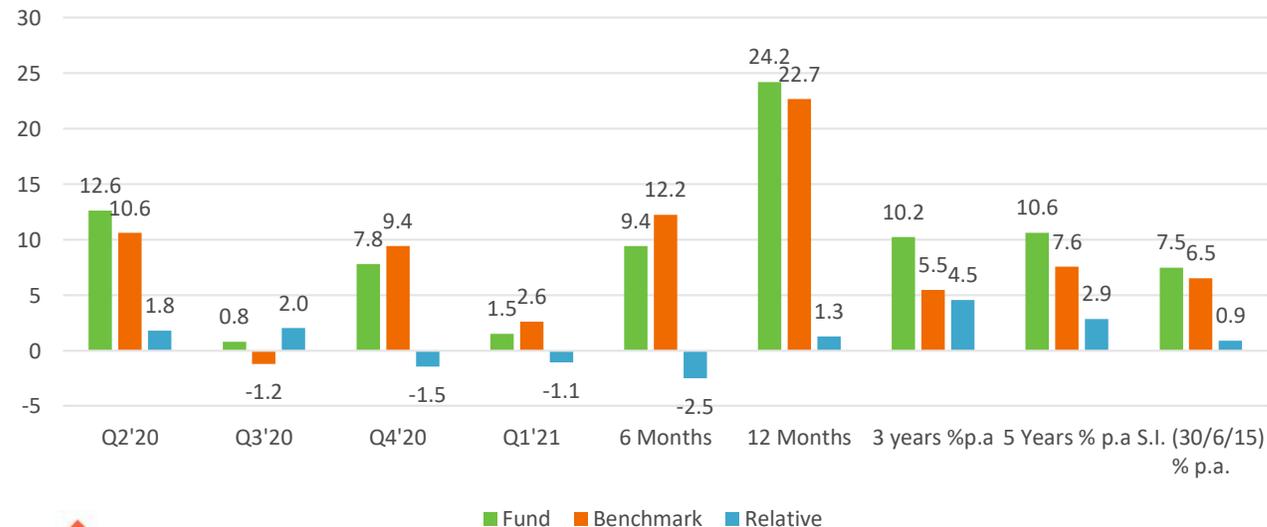
Valuation

| | Value (£m) | | Proportions | | Difference |
|-------------------------|-------------|-------------|-------------|-------------|------------|
| | 30/09/2020 | 31/03/2021 | Actual % | Benchmark % | |
| UK Equity | 1.61 | 1.69 | 35.6% | 60.0% | -24.4% |
| Overseas Equity | 2.03 | 2.26 | 47.6% | 20.0% | 27.6% |
| Total Equity | 3.64 | 3.96 | 83.2% | 80.0% | 3.2% |
| UK Government Bonds | 0.24 | 0.25 | 5.2% | 18.0% | -12.8% |
| UK Non Government Bonds | 0.30 | 0.34 | 7.2% | | 7.2% |
| International Bonds | 0.13 | 0.13 | 2.8% | | 2.8% |
| Total Bonds | 0.68 | 0.72 | 15.2% | 18.0% | -2.8% |
| Cash | 0.08 | 0.08 | 1.6% | 2.0% | -0.4% |
| Total | 4.40 | 4.75 | | | |

Income

| (Standard Life) Estimated Annual Income | |
|---|----------|
| 30/09/2020 | £135,532 |
| 31/12/2020 | £135,734 |
| 31/03/2021 | £142,603 |
| Target | £113,000 |

Performance



Cumulative Performance



Valuation and Performance - Renfrew Common Good Fund

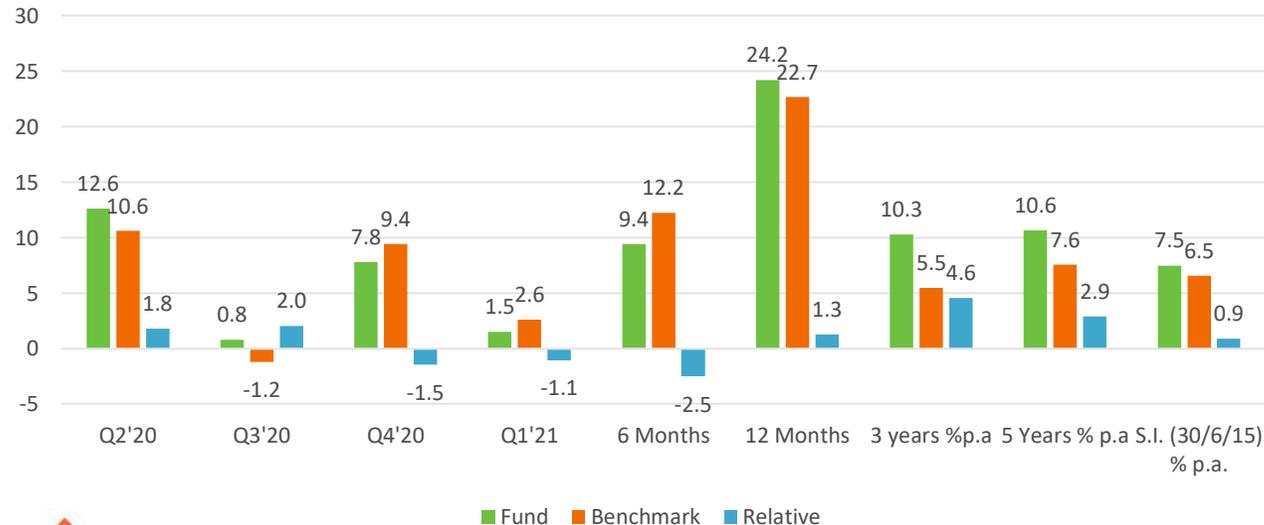
Valuation

Income

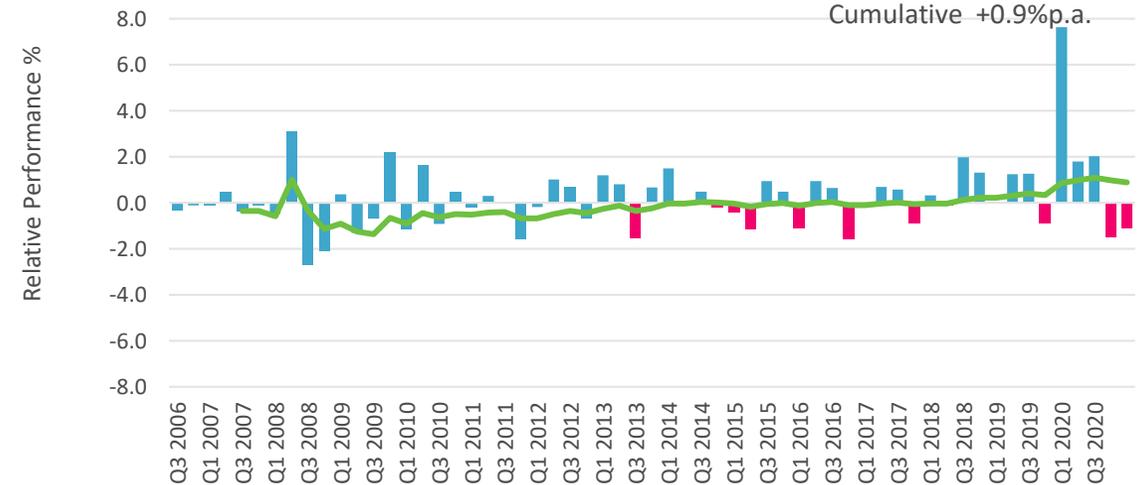
| | Value (£m) | | Proportions | | Difference |
|-------------------------|--------------|--------------|--------------|--------------|------------|
| | 30/09/2020 | 31/03/2021 | Actual % | Benchmark % | |
| UK Equity | 5.50 | 5.71 | 35.5% | 60.0% | -24.5% |
| Overseas Equity | 6.84 | 7.63 | 47.5% | 20.0% | 27.5% |
| Total Equity | 12.34 | 13.34 | 83.0% | 80.0% | 3.0% |
| UK Government Bonds | 0.83 | 0.83 | 5.2% | 18.0% | -12.8% |
| UK Non Government Bonds | 0.89 | 1.10 | 6.8% | | 6.8% |
| International Bonds | 0.51 | 0.51 | 3.2% | | 3.2% |
| Total Bonds | 2.23 | 2.44 | 15.2% | 18.0% | -2.8% |
| Cash | 0.31 | 0.29 | 1.8% | 2.0% | -0.2% |
| Total | 14.87 | 16.07 | | | |

| (Standard Life) Estimated Annual Income | |
|---|-----------------|
| | Income |
| 30/09/2020 | £457,019 |
| 31/12/2020 | £457,547 |
| 31/03/2021 | £480,796 |
| Target | £380,000 |

Performance



Cumulative Performance



Commentary

Both the Paisley and Renfrew funds in aggregate, returned 9.4% over the 6 months to 31 March 2021; over the same period, the benchmark achieved a return of 12.2%. The performance over the period reflects the continuing equity market recovery although bond returns were negative, gilts in particular providing negative returns and corporate bonds faring better albeit still modestly negative.

In Q4 2020, stock selection was a detractor from performance due the underweight position in cyclical stocks which performed strongly, such as miners and financials. Defensive stocks tended to underperform in Q4 and therefore defensive holdings such as utilities and renewables lagged the wider market. Healthcare was another sector which lagged the market – the fund's overweight position was therefore detrimental. Within these sectors, the Fund's holdings did continue to perform well, albeit not as well as more cyclical stocks.

Q1'2021 saw a continuation of this with cyclical stock outperformance. The below benchmark allocation to UK equities was also a negative factor relative to benchmark as UK equities outperformed overseas equities (especially as a stronger pound reduced the returns from overseas equities to UK investors). The allocation with bond holdings was a beneficial factor, as the overweight to corporate bonds (underweight gilts) was advantageous with corporate bonds outperforming gilts.

Over 12 months, fund returns are very positive in absolute terms (+24.2%) and significantly ahead of the benchmark return of 22.7% (reflecting the strong recovery in markets after the large falls in Q1'20). Returns over 3 and 5 years are also significantly ahead of benchmark and over 10% p.a. in absolute terms. Since the inception of the mandate, on 1 July 2006, the Fund return of +7.5% p.a. is strong in absolute terms and ahead of the benchmark return of +6.5% p.a. Throughout this time, the investment manager has met a demanding income target.

As at end of March 21, the allocation to equities (83.2%) was above the benchmark allocation (80%). The portfolio continues to be 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 significantly although this reversed over the last 6 months. The overweight to equities has been beneficial as equities have outperformed bonds.

The exposure to bonds was 15.2% at end March 2021 compared with the benchmark of 18% and a minimum allocation of 15%. The allocation to cash at end March 2021 was 1.6% (just below 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.

Appendices



Asset Allocation

Paisley Common Good Fund

| 30/09/2020 | Benchmark | Fund | Difference |
|-------------------------|---------------|---------------|--------------|
| UK Equity | 60.0% | 36.7% | -23.3% |
| Overseas Equity | 20.0% | 46.0% | 26.0% |
| Total Equity | 80.0% | 82.7% | 2.7% |
| UK Government Bonds | 18.0% | 5.6% | -12.4% |
| UK Non Government Bonds | | 6.8% | 6.8% |
| International Bonds | | 3.0% | 3.0% |
| Total Bonds | 18.0% | 15.4% | -2.6% |
| Cash | 2.0% | 1.9% | -0.1% |
| Total | 100.0% | 100.0% | |

| 31/03/2021 | Benchmark | Fund | Difference |
|-------------------------|---------------|---------------|--------------|
| UK Equity | 60.0% | 35.6% | -23.3% |
| Overseas Equity | 20.0% | 47.6% | 26.0% |
| Total Equity | 80.0% | 83.2% | 2.7% |
| UK Government Bonds | 18.0% | 5.2% | -12.4% |
| UK Non Government Bonds | | 7.2% | 6.8% |
| International Bonds | | 2.8% | 3.0% |
| Total Bonds | 18.0% | 15.2% | -2.6% |
| Cash | 2.0% | 1.6% | -0.1% |
| Total | 100.0% | 100.0% | |

Renfrew Common Good Fund

| 30/09/2020 | Benchmark | Fund | Difference |
|-------------------------|---------------|---------------|--------------|
| UK Equity | 60.0% | 37.0% | -23.3% |
| Overseas Equity | 20.0% | 46.0% | 26.0% |
| Total Equity | 80.0% | 83.0% | 2.7% |
| UK Government Bonds | 18.0% | 5.6% | -12.4% |
| UK Non Government Bonds | | 6.0% | 6.8% |
| International Bonds | | 3.4% | 3.0% |
| Total Bonds | 18.0% | 15.0% | -2.6% |
| Cash | 2.0% | 2.1% | -0.1% |
| Total | 100.0% | 100.0% | |

| 31/03/2021 | Benchmark | Fund | Difference |
|-------------------------|---------------|---------------|--------------|
| UK Equity | 60.0% | 35.5% | -23.3% |
| Overseas Equity | 20.0% | 47.5% | 26.0% |
| Total Equity | 80.0% | 83.0% | 2.7% |
| UK Government Bonds | 18.0% | 5.2% | -12.4% |
| UK Non Government Bonds | | 6.8% | 6.8% |
| International Bonds | | 3.2% | 3.0% |
| Total Bonds | 18.0% | 15.2% | -2.6% |
| Cash | 2.0% | 1.8% | -0.1% |
| 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 | -7.4 | -6.6 | -5.6 | -5.5 | -0.4 | -0.3 | 0.0 | 0.0 |
| Corporate Bonds | 0.9 | -1.0 | 10.7 | 7.0 | 0.1 | 0.8 | 0.5 | 1.1 |
| International Bonds | 1.7 | -9.6 | 15.3 | -9.8 | 0.1 | 0.5 | 0.4 | 0.8 |
| UK Equities | 18.4 | 18.5 | 27.7 | 26.8 | 6.6 | 9.9 | 0.0 | 0.3 |
| Overseas Equities | 11.2 | 12.8 | 34.4 | 40.9 | 5.1 | 14.5 | -0.7 | -2.1 |
| Total Assets | 9.4 | 12.2 | 24.2 | 22.7 | | | | |
| Estimated Contribution to relative returns from asset allocation | | | | | | | -3.0 | 1.5 |

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 | -7.1 | -6.6 | -5.3 | -5.5 | -0.4 | -0.3 | 0.0 | 0.0 |
| Corporate Bonds | 1.0 | -1.0 | 10.8 | 7.0 | 0.1 | 0.7 | 0.5 | 1.0 |
| International Bonds | 1.8 | -9.6 | 15.6 | -9.8 | 0.1 | 0.5 | 0.4 | 0.9 |
| UK Equities | 18.4 | 18.5 | 27.7 | 26.8 | 6.6 | 9.9 | 0.0 | 0.3 |
| Overseas Equities | 11.2 | 12.8 | 34.4 | 40.9 | 5.1 | 14.5 | -0.7 | -2.1 |
| Total Assets | 9.4 | 12.2 | 24.2 | 22.7 | | | | |
| Estimated Contribution to relative returns from asset allocation | | | | | | | -3.0 | 1.4 |

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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To: Investment Review Board

On: 9 June 2021

Report by: Director of Finance and Resources

Heading: Investment management

1. Summary

- 1.1 Aberdeen Standard Capital Limited (ASC) have been engaged by the Council to manage the investments of the Paisley and Renfrew Common Good Funds. The performance of the funds managed by ASC are regularly monitored by the Board.
- 1.2 Investment of the funds is undertaken in accordance with the Investment Policy Statement, which recognises that investment in equities and fixed interest bonds is not without risk. However, the return available will generally exceed that available from holding the funds in cash (ie in bank deposits or money market funds) managed by the Council. Investing in equities and fixed interest stocks will also allow capital growth in addition to dividend or interest returns.
- 1.3 In recent years the level of income to the Common Good Funds has exceeded that disbursed, to the point where the cash balance managed by the Council as at 31 March 2021 is £0.6m for the Paisley Common Good Fund and £4.8m for the Renfrew Common Good Fund.
- 1.4 The interest being generated currently on these balances is circa 0.4% owing to the low interest rate environment which has been experienced for some time. An increase in the bank rate is not anticipated in the near future. The yield on the balances managed by ASC has averaged 3 - 3.5% over the past 3 years (excluding capital growth).

- 1.5 It is therefore proposed that in order to secure an improved overall return on fund balances that a proportion of the funds currently held in cash are transferred to the management of ASC. In order to also balance risk and manage liquidity, a cash balance will continue to be managed by the Council. It is considered that maintaining a cash balance of £0.3m in the Paisley Fund and £1.5m in the Renfrew Fund would achieve a prudent balance of liquidity and longer term investment return.
-

2 Recommendations

- 2.1 To agree that funds from the Paisley Common Good Fund and Renfrew Common Good Fund cash balance currently managed by the Council of £0.3m and £3.3m respectively be added to the investments currently managed by Aberdeen Standard Capital Ltd.
- 2.2 To delegate authority to the Director of Finance and Resources to execute the funds transfer.
-

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. The proposed transfer would increase the funds managed by Aberdeen Standard Capital by £3.6m.
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** – investing in equities and fixed interest stocks is inherently a higher risk than holding funds in cash, however the investment return is proportionate to the risk and the investment will continue to be undertaken in line with the agreed Investment Policy Statement and the risk parameters within this Statement.
11. **Privacy Impact** – none
12. **COSLA Policy Position** – none
13. **Climate Risk** – none

List of Background Papers

None

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