

Meeting of:	Welsh Church Act Estate Committee
Date of Meeting:	Monday, 04 October 2021
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Investment Management Strategy Review 2021/22
Purpose of Report:	To consider the existing approach to Welsh Church Acts Investment and consider options for further review and developing a future strategy.
Report Owner:	Report of the Managing Director
Responsible Officer:	Carys Lord Head of Finance/ Section 151 Officer
Elected Member and Officer Consultation:	Not applicable
Policy Framework:	Not applicable
<p>Executive Summary:</p> <p>The WCA Trust currently holds £1.981m (£1.857m as at 31st March 2021) in Investments which are managed on a discretionary basis by Tilney Investment Planning Ltd.</p> <p>The WCA Trust was also holding £3.231m of investment properties as at 31st March 2021 which were last valued in 2018/19</p> <p>The Charity Commission has extensive guidance on Trustee's duty of care for investments including a responsibility to review Investments and Investment Management arrangements.</p>	

Recommendations

1. That Committee considers if it wishes to commission a full asset review of the land held as Investment Properties.
2. That Committee considers the options set out in paragraph 2.34 to this report for the 2021/22 Investment Strategy and agrees the most suitable option for Welsh Church Act Investments.

Reasons for Recommendations

1. To ensure that the Welsh Church Act is able to develop a strategy in respect of the Investment Properties held by the Trust.
2. To ensure that Trustees have fulfilled their obligations as Trustees to regularly review the Investments of the Vale of Glamorgan Welsh Church Act.

1. Background

- 1.1 The Welsh Church Act Estate Committee has delegated authority to manage the trust's affairs in accordance with "The Scheme" the Welsh Church Act Estate as vested in the Council.
- 1.2 The WCA Trust currently holds £1.981m (£1.857m as at 31st March 2021) in Investments which are managed on a discretionary basis by Tilney Investment Planning Ltd.
- 1.3 The WCA Trust was also holding £3.231m of investment properties as at 31st March 2021 which were last valued in 2018/19 due to the nature of these properties it is not thought the value will have fluctuated much as a result of the pandemic.
- 1.4 A number of legal requirements are set out for Trustees to consider when managing investments in the document The Charities and Investment Matters a Guide for Trustees which can be accessed on the Charity Commission Website. The document sets out that :-

Trustees have overall responsibility for the investment of a charity's funds. This means that Trustees have a crucial role to play in making strategic decisions about how to use a charity's assets to achieve its aims. However, trustees may choose to delegate day to day decisions about investments to a third party; and

If trustees can demonstrate that they have considered the relevant issues, taken advice where appropriate and reached a reasonable decision, they are unlikely to be criticised for their decisions, or for adopting a particular policy.

- 1.5 The document also notes that Trustees must "review Investments (and their investment manager) from time to time, changing them if necessary".

2. Key Issues for Consideration

- 2.1 This report outlines the Welsh Church Act's current Investment Properties and Investments. The report also sets out a number of options for Investments for consideration by Members as Trustees of Welsh Church Act.

Investment Properties

- 2.2 The Investment Properties of the Trust are set out below with the values at the most recent valuation by Avison Young RICS qualified valuer 31st March 2019;

Asset Type	Asset	Area Acres	Current Value
Land	Cogan Hall, Sully Road, Penarth	2.47	£30,000
Land	Land opposite St Josephs Primary School, Sully Road, Penarth	3.47	£42,000
Land	Cogan Hall, Sully Road, Penarth	4.67	£1,424,000
Land	North of Cogan Hall Farm, Sully Road, Penarth	1.84	£22,000
Land	Farmland west of Llanblethian	63.48	£476,000
Land	Glebe Fields, South Road, Sully	14.26	£143,000
Land	South of Wenvoe Playing Fields, Morfae Lane, Wenvoe	4.38	£44,000
Land	West of Wrinstone Farm, Land at Wenvoe	2.09	£23,000
Land	Rectory Farm	42.11	£316,000
Land	North West of Llangan	4.74	£52,000
Land	West of Llangan	3.95	£43,000
Land	North West Llangan	26.81	£268,000
Land	West of Llangan	6.75	£74,000
Land	North West Llangan	16.05	£161,000
Land	Access Way Church Terrace Cadoxton	0.008	£1,000
Land	West of Glebefields, Sully Moors Road	0.34	£17,000
Land	Land Near St Oswalds Road	0.1	£10,000
Land	Land at Seaview Terrace	0.1	£10,000
Land	Access Land Rear of Church Road	0.14	£0
Land	Land at Bastian Close, Cadoxton	0.87	£75,000
Land	Access Strip, John Street	0.3	£0

- 2.3 The Welsh Church Fund has a number of grazing and other lease and licence arrangements in place on a number of these assets and the investment income amounts to approximately £18k per annum. There are also a number of assets where no such arrangement is suitable or in place. It is important that this list of investment properties is kept under review, however, it may be that the best

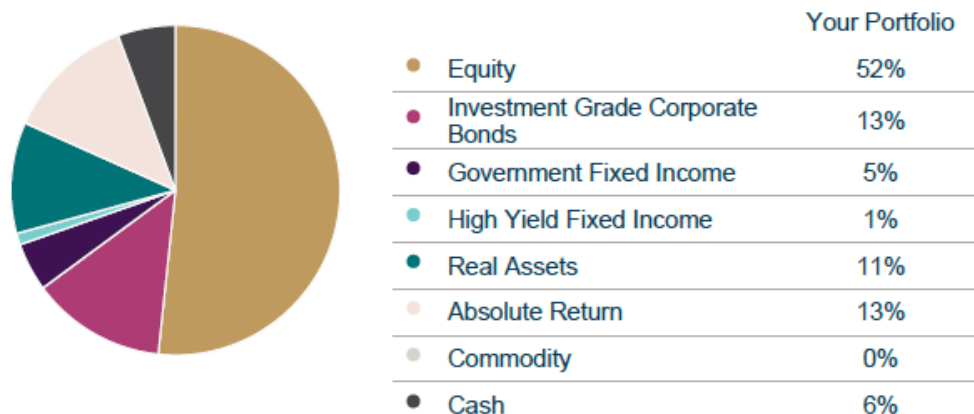
option for the long term interests of the trust is to continue to hold these assets pending future increases in land values and changes to the LDP.

- 2.4** If Trustees wish to carry out a full asset review then Trustees could commission an external valuer to carry out a review of all assets outlined above considering development potential in line with the long term horizons of the trust's Investment Strategy.

Investments

- 2.5** The Investments of the Welsh Church Fund were valued at £1.970m as at 11th August 2021. The historic value of the investments was £1.595m therefore the current investment value shows an unrealised gain of £375k. The split of the funds' assets as at the date of the most recent valuation are as follows.

Asset allocation*



- 2.6** The funds are invested on an ethical basis and managed on a discretionary basis by Tilney Investment Planning Ltd. The risk status of the investments are categorised as a risk level 3 which can be best described as a cautious end of a balanced approach to risk.

Investment Performance

- 2.7** The Council's Investment Income shown against Investment balance is set out below.

Year	Historic Cost Value	Investment Value	Average Investment	Income	Income as a % of value	Annual Capital Growth after adjusting for transfers in
2014/15	825,294	909,395				

2015/16	1,585,294	1,600,841	1,255,118	12,277	0.98%	(68,554)
2016/17	1,595,294	1,731,656	1,666,248	38,298	2.30%	120,815
2017/18	1,595,294	1,737,402	1,734,529	47,532	2.74%	5,746
2018/19	1,595,294	1,725,108	1,731,255	40,515	2.34%	(12,294)
2019/20	1,595,294	1,603,745	1,664,426	34,645	2.08%	(121,363)
2020/21	1,595,294	1,857,129	1,730,437	30,946	1.79%	253,384.00

- 2.8** The Council's capital growth over the period shown has been strong and the reduction shown in March 2020 of 7% as a result of the Covid-19 Pandemic has been recovered quickly.
- 2.9** The Council's income return has been falling since 2017/18 and this impacts the amount of cleared income that the Welsh Church Act Fund has available to allocate to grant awards.

Tilney Investment Performance Analysis

- 2.10** Tilney has a very risk focused method of investing money, targeting a rolling return of CPI plus a risk premium (in your case CPI+1.5%). Your portfolio is managed on a defensive mandate and not chasing broader equity indices.
- 2.11** The portfolio has an aspiration income target of £40,000 per year, based on the actual value of circa £1,981,000 this represents a circa 2% yield on the portfolio. The portfolio as it is currently positioned produces an estimated £34,000 or 1.74%. The yield 'benchmarks' below provide some context, the bond yields are total return, the Equity yields are just income, so there is potential for capital growth in addition to the yield.

Bond Yields

UK Base Rate – 0.1%

10 Year UK Gilt - 0.6%

5 Year UK Investment Grade Credit – 1.9%

Equity Yields (not total return)
FTSE100 – 3.3%
S&P 500 – 1.4%
Global Market (MSCI World) – 1.3%

- 2.12** What the above shows is that in order to get a yield of 2% or more investors are effectively now forced out of investment grade fixed income and into equity and other risk assets (high yield, property etc.). The Welsh Church Act portfolio is on strategy 3 (out of 7), so relatively low risk. The portfolio is already structured towards producing an income (a typical balanced portfolio yield is circa 1% vs the current 1.7%). Having reviewed the portfolio Tilney believe the income will modestly over the next 12 months this increase will be in part because many dividends were cancelled last year due to the impact and uncertainty around Covid. However, a lot of the income in the market comes from sectors against the ethical mandate, a 2% yield from this (low risk) portfolio is going to be an aspiration rather than a guarantee. Tilney are currently looking at adjusting the equity allocation to focusing on greater income and introducing some key property holdings at the expense of some low yielding hedge funds. These trades would still give the portfolio a good chance of preserving the residual capital against inflation.

Discretionary Approach

- 2.13** One consideration it that because the investments of the Welsh Church Act Trust are managed on a discretionary basis and because the investment value of the Trust is relatively small although at the time of writing this report the value of investments is approaching £2m which will reduce the Investment Management fee paid on the Investments if they remain managed by Tilney on a discretionary basis.
- 2.14** The advantage of a discretionary approach is that when we consider how much has changed in the last few years and how many unexpected things have happened, Brexit, Trump, covid-19 etc. The Investment managers are able to respond promptly to this and adjust the portfolio accordingly.

Ethical approach

- 2.15** The Charity Commission advises that Charities may opt to invest on an ethical basis. It further states that Charities are permitted to invest on an ethical basis, even if the investment might provide a lower rate of return. However, it further states that the Charity's trustees must be able to justify why they are choosing to invest in this way. There are three justifications permitted by law;
- 1.** A particular investment conflicts with the aims of the charity.
 - 2.** The charity might lose supporters or beneficiaries if it does not invest ethically.
 - 3.** There is no significant financial detriment.

2.16 The current ethical approach adopted by Tilney focuses on funds which invest in companies that operate in areas such as:

1. The conservation of energy or natural resources and resource efficiency
2. Sustainable transport and infrastructure
3. High quality products and services of long-term benefit to society such as healthcare and affordable housing
4. Sustainable food and water management
5. Companies supportive of the United Nations Sustainable Development Goals through practices such as strong equality and human rights policies, good employee relations, training and education of staff and a commitment to community involvement.

2.17 The portfolios will aim to limit their exposure to investments involved in:

1. The production of weapons and weapons systems
2. Avoidable environmental damage, unsustainable resource depletion, water and air pollution and land contamination.
3. Casinos or gambling businesses
4. Contributing or benefitting from the violation of human and workers' rights
5. Producing and distributing pornographic material
6. Producing alcohol for human consumption
7. Growing tobacco or the manufacture of tobacco products

2.18 Tilney have advised that the ethical stance does have a small impact on the income generated on the fund as the products are less likely to be income producing and therefore it is important that Trustees consider whether the decision to invest on an ethical basis still complies with the requirements set out above. Although I think Ethical Investments will certainly be a direction of travel for the sector and therefore as Investment Management decisions should be taken with a medium to long term time horizon it would be prudent to maintain an ethical slant to the investment portfolio.

Charging Structure

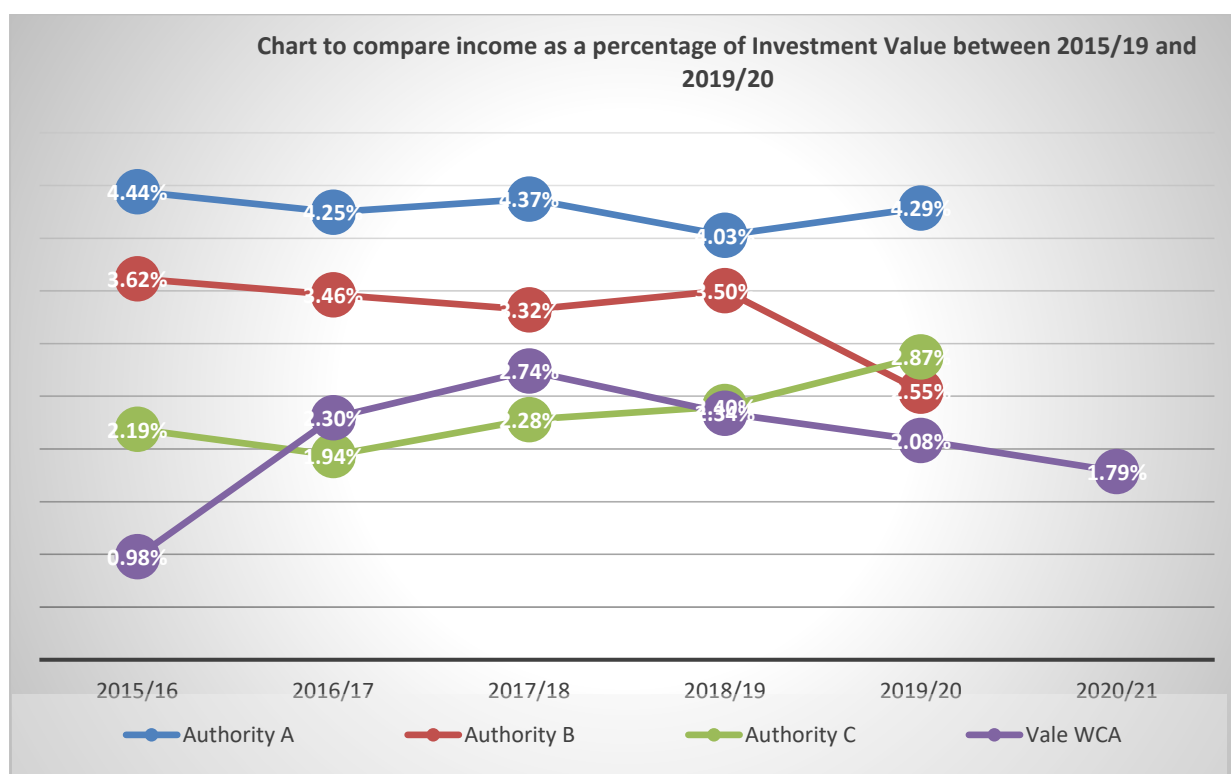
2.19 Tilney have advised that as a result of a merger with Smith and Williamson that is currently being undertaken that they are reviewing the fees charged to charities and are proposing a lower fee will be charged to Welsh Church Act Investments in future as set out below.

	Current Charging Structure		New Charging Structure	
	£	%	£	%
Financial Planning	£ 7,880.00	0.40%	£4,000.00	0.20%
Investment Management	£ 11,350.00	0.58%	£12,500.00	0.63%

Custody & Platform	£ 2,360.00	0.12%	£0.00	0.00%
Total	£ 21,590.00	1.10%	£16,500.00	0.83%
Total plus VAT	£ 25,436.00	1.29%	£19,800.00	0.99%

Benchmarking other Welsh Church Funds

2.20 As part of this review the Vale of Glamorgan Welsh Church Act benchmarked its level of return against three other Councils with Welsh Church Act Investment Funds as shown below. It should be noted that all of these Councils have larger Investments than the Vale of Glamorgan Welsh Church Act Fund, none of these authorities invest on a discretionary basis and none invest on a strictly ethical basis.



2.21 It is important to note when considering these results that the funds are not invested with the same investment mandates so for instance none of the comparators are invested on an ethical basis. Similarly these investments have a different risk profile, these are two key factors that Tilney have highlighted as potentially limiting income return. We should also consider that the annual income return is just part of the picture for investments of this long term nature and we should also consider overall investment return for the period.

2.22 The return shown by Authority A is highest out of the four authorities and reflects an investment split that include a number of income, charity funds and

property funds. It can be noted that the investments have 23% invested in Property Funds, whilst these fluctuations and the costs of entry and exit in respect of fees charged can be quite significant, so this would need to be taken into account if the WCA trustees wish to proceed with a property fund investment. Property Fund investments would not align with Welsh Church Act Fund's current approach to risk.

- 2.23** Other issues to be aware of in respect of property funds are that there can be significant lags on the return of funds and that there can be volatility in capital returns over the term of the investment. Investors should also consider what their existing exposure is to fluctuations in the value of property investments prior to embarking on an investment in a property fund.
- 2.24** Similarly Authority B has investments in excess of £12m at 31st March 2020 and holds investments in CCLA with the Charities Official Investment Fund and the Charities Official Fixed Interest Fund and these investments account for 96% of the Welsh Church Act Fund's investments.
- 2.25** Authority C holds investments of £3.2m as at 31st March 2020 and invests with Blackrock, these investments generated an annual return of circa 2.87% in 2019/20.

Alternative Investment Providers

- 2.26** Having consulted with the Council's Treasury Management Advisors Link Asset Management Ltd a number of commonly used Investment Providers in the Charities sector are listed below;

CCLA
Sarasin Partners
Casanove Charities
Reinsburg (Funds and Discretionary)
Blackrock
Rathbone
Charles Stanley (Discretionary)
Tilney (Discretionary)

- 2.27** It should be noted that we have been advised by the Investment Advisers that the full discretionary service is not available on most investment platforms unless the fund is in excess of £15m.
- 2.28** In the previous Investment Management Review report an alternative approach to investments was set out which was the use of Collective Investment Schemes. The Charity Commission document describes a specific collective investment scheme called a common investment fund (CIF) ;

CIFs are regulated charities in their own right and only charities established in the United Kingdom can invest in them. They give charities of all sizes the ability to

invest in a tax efficient way in a range of investments to achieve a professionally managed, diversified and balanced portfolio.

- 2.29** A number of the benchmarked authorities utilised these funds as an alternative to our discretionary approach this approach gives exposure to equities, real assets, fixed interest and alternative investment classes.
- 2.30** An example of the CCLA funds which are utilised by both Authority A and Authority B are set out below;
- 2.31** CCLA have two multi asset funds for charities, the COIF Charities Investment Fund (Investment Fund) and the COIF Charities Ethical Investment Fund (Ethical Fund). Both funds have the same financial objective and performance targets:
- The long-term objective is to provide a long-term total return comprising growth in capital and distributions.
 - The performance target is for long-term average annual total returns of CPI plus 5% (gross of fees), including a reliable and sustainable annual distribution to investors.
 - Both funds aim to achieve these returns within a level of risk (volatility) no more than three-quarters of the risk experienced in the UK stock market.
- 2.32** The funds are common investment funds only available to UK charity investors, created to ensure that charities are able to access suitable investments (for example, in the term of the degree of risk such funds may take) at a reasonable cost. One of the key benefits of the common investment funds is that they have charitable status and therefore retain the same tax benefits, such as no Stamp Duty. The Investment Fund also has special tax status for US equity income, paying only 4% withholding tax compared with the standard rate for charities of 15%.
- 2.33** The risk for these funds is managed through the diversity of the investments held. These are relatively new products and under this approach the Trustees would have very little control over the underlying investments in the fund. These funds give variable returns however the diversity of assets aim to give stability in income payments.
- 2.34** In summary this strategy review document proposes three options for Trustees to consider.
- 1.** That Trustees remain in the current investment approach and avoid costs associated with selling and moving across to a new investment platform. That Trustees consider reviewing their approach to risk to increase potential income returns and also consider reducing the amount of the investment allocated on an ethical basis as Tilney have indicated that this could impact income returns. The Trustees would need to be aware that in accepting more risk that there could be more volatility in investment balances. Tilney have proposed that risk could be increased to a 4 and the approach to Ethical investments could be slightly more relaxed so compelling

investment ideas can be included in the portfolio even if due to their indirect exposure they would previously have been screened out.

2. That Trustees go through a formal investment review process and invite submissions from all parties noted in this strategy review document. To allow comparison between the alternative investments options the Committee would need to be clear on what its attitude to risk should be and what ethical stance should be adopted.
3. That the Trustees consider moving away from the discretionary investment management approach and move to an approach where the Welsh Church Acct Fund is invested through two or three common investment funds, organisations that could be utilised for this approach are CCLA, Blackrock, Sarasin Partners, Reinsburg, Casanove Charities, M&G, Schroeder's and Rathbone.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1 The Trusts actions need to comply with Charity Law and its decisions are independent of the Councils obligations under the Well-Being of Future Generations Act.

4. Resources and Legal Considerations

Financial

- 4.1 The Welsh Church Act Committees Investments as at 20th September 2021 total £1.981M which are managed through Tilney in a diversified portfolio.
- 4.2 The investment income received after the deduction of investment management fees since 2016/17 is set out in the table below.

Financial Year	Investment Fund Balance at 31st March	Investment Income Received
	£'000s	£'000s
2016/17	£1,732	£38
2017/18	£1,744	£48
2018/19	£1,724	£41
2019/20	£1,604	£35
2020/21	£1,857	£31

Employment

- 4.3 There are no direct employment implications arising from this report.

Legal (Including Equalities)

- 4.4** Trustees are required to act in accordance with Charity Law and have of duty of care for the Investments of the Trust. Trustees must take and consider advice from someone experienced in investment matters before making investments and when reviewing them, unless they have good reasons for not doing so.

5. Background Papers