Agenda Item: 6

Meeting of:	**Welsh Church Act Estate Committee**
Date of Meeting:	**Monday, 18 January 2021**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	**Investment Management Review 2020/21**
Purpose of Report:	To consider the existing approach to Investment Management 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

Executive Summary:

The Welsh Church Act currently holds £1.845M in investments.

The Charity Commission has extensive guidance on Trustee's duty of care for investments including a responsibility to review Investments and Investment Management arrangements.

Recommendation

1. That Committee considers the contents of this report and agrees that some additional advice should be requested from the Council's Treasury Management Advisors Link Asset Management.

Reason for Recommendation

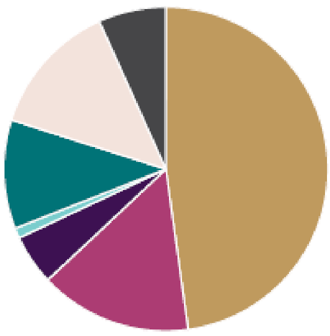
1. To enable the Committee to carry out a more detailed review of the investment management arrangements and Committee's approach to risk and socially responsible investments.

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 Welsh Church Act currently holds £1.845M in investments split over the following categories:

Asset allocation*



	Your Portfolio
Equity	48%
Investment Grade Corporate Bonds	15%
Government Fixed Income	5%
High Yield Fixed Income	1%
Real Assets	11%
Absolute Return	13%
Commodity	0%
Cash	7%

1.3 The investments are currently managed by Tilney and the Investments are managed on a Discretionary Investment Management basis, on an Ethical basis at Risk level 3 which can be described as at the cautious end of a balanced approach to risk.

1.4 At Committee 14th September 2015 Minute 387 Towry Limited who were the Investment Managers at the time recommended that as the proceeds from sites at Southerndown and Llangan were increasing the value of investments the portfolio should be managed on a Discretionary Investment Management basis which, rather than managing investments via an annual review, would enable a more responsive approach and provide day to day management of the investments and greater flexibility to be able to monitor the monies throughout the year and make changes as required. The Trust was advised that the approach also catered to a lot of the Trust's responsibilities. Towry Limited advised that certain losses suffered by the Trust in 2008 could have been avoided if Discretionary Investment Management had been available. A decision was taken at this Committee to amend the risk levels from Intermediate to Moderate. Trustees also indicated that investments should be made on an ethical basis at this Committee.

1.5 The following year at the Committee meeting held on the 3rd October 2016 during the Investment Manager's presentation the Trustees were informed that Tilney had recently acquired Towry Limited.

1.6 Tilney recommended to Trustees that rather than continuing to have a very reactive approach it would be better for the performance of the Trust's investments if the Trust transitioned to a managed approach for investments which would enable the investment management team to respond to changing market conditions and amend the portfolio as required over the course of the year rather than simply each year following the annual review.

1.7 Tilney were targeted with securing around £40k of investment income with the balance of investments intended to contribute towards capital growth in line with the legal obligation of Trustees to be mindful of the need to invest for both the short term and long term benefit of the fund.

1.8 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 by following this link.

1.9 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.

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

1.11 At the Committee held on 28th September 2020 (Minute 91) there was some discussion following the presentation by Investment Managers, Tilney, in respect of the levels of return, investment management fees and the ethical approach to investment and it was recommended that a benchmarking exercise be carried out in relation to the investments held by other Welsh Church Act Estate Trusts and the management fees being paid in relation to these to be reported at the next meeting.

2. Key Issues for Consideration

2.1 This report reviews the Welsh Church Act's current approaches to Investment Risk and Ethical Investment and considers a high level review of how other Welsh Authorities manage their Welsh Church Act Investments. The report also sets out a proposal for how Trustees may undertake a further review of the existing approach to investments.

Category of Risk for Investments

2.2 The Welsh Church Act Investment Portfolio is invested on a Risk Level 3 this has been described as at the cautious end of a balanced approach to risk a table summarising the various risk levels is included at Appendix A to this report. Investments were previously held at an Intermediate risk level however Trustees were advised to review their risk level in 2015 to minimise volatility in the fund whilst maximising return.

2.3 The Charities Investment Advice sets out that as part of Trustee's duty of care Trustees must be satisfied that the overall level of risk undertaken is right for the charity and its beneficiaries. It outlines a number of categories of risk which are set out below that Trustees should consider in respect of its investment decisions.

1. Capital Risk (Loss of Capital or Volatility)
2. Liquidity Risk - will the charity be able to raise capital to meet its obligations if they all fall due.
3. Market Risk - inflation risk/interest rate risk/exchange rate risk and regulatory and governance risk
4. Valuation Risk - relating to investment properties.
5. Counterparty Risk - this is the risk that a firm with which the charity does investment business (for example, a bank, stockbroker or investment manager) will default on its contractual obligations.
6. Environmental Social and Governance Risk (ESG) - when considering which companies and organisations to invest in, charities are increasingly taking into account such factors as impact on climate, employment practices, sustainability, human rights, community impact, executive compensation and board accountability.

Ethical Approach to Investment

2.4 The Welsh Church Act Investments are invested on an Ethical Basis following a decision taken at Committee on 14th September 2015 (Minute 387). At the last Investment Management presentation there was some discussion around the performance of ethical investments and also consideration that under an ethical investment policy investments in commodities such as gold would not normally be made.

2.5 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.

2.6 Responsible investment or ethical investment has become increasingly prominent in recent years. $1 trillion dollars is currently managed globally in Environmental risk, Social implications and Governance quality (ESG) funds and this has been a particular growth area during the pandemic.

2.7 Typical exclusions when adopting a responsible investment approach are Armaments, Tobacco, Alcohol, Adult Entertainment, Gambling, Fossil Fuels and High Interest Rate Lending. A recent presentation by CCLA Investment Management Limited, who manage funds for charities, religious organisations and the public sector, demonstrated, that performance of their Collective Investment Funds was not impacted by a collective investment approach. Similarly global research agency Morningstar examined 745 sustainable funds and compared them against 4,150 traditional funds and found they matched or beat returns in all categories.

2.8 Similarly at the recent investment management presentation by Tilney, on 28th September 2020 there were a number of ethical investments that were highlighted that brought good return into the portfolio.

2.9 Responsible Investments are a becoming increasingly important and the Council is now required to report on how it has considered the Environmental Risks, Social Implications and Governance Quality as part of its annual Treasury Management Strategy. Investment Managers are increasingly able to demonstrate that investments on this basis do not restrict performance therefore it is could be considered that Trustees can continue with the current ethical approach to investments on the basis that it aligns with the charitable purposes of the Trust and that there is no significant financial detriment to adopting this approach. It may be useful to request a summary of how the ethical approach is implemented by Tilney to ensure that it aligns with the Trustee's interpretation of Ethical or Responsible investments.

Benchmarking Other Welsh Church Act Investment Arrangements

2.10 A number of Councils across Wales hold Welsh Church Act Funds and there is a wide range of investment approaches and a wide range of investment values (ranging from £400k to £12m) across the various authorities contacted.

1. One Pension Fund Authority invests on a combination of Equities in accordance with the Pension Fund strategy and a Collective Investment Fund. This fund does not specifically adopt an ethical stance however Ethical Collective Investment Funds are available from organisations such as CCLA.
2. Another Authority contacted utilises advice from the Council's Treasury Management Advisers to invest in a portfolio that is spread between property funds, equities and gilts on a balanced risk basis. They do not invest on an ethical basis.
3. Another Authority only invested internally or in the gilt market and therefore consideration of an ethical approach did not apply.
4. Another Authority contacted has only recently had their share of the fund returned following previously adopting a pension fund, it wasn't considered that the value was sufficient to justify making a separate investment however they were considering an investment strategy for the future.

Collective Investment Schemes

2.11 One potential alternative investment model identified as part of the benchmarking exercise 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.

Further Review

2.12 A number of authorities contacted as part of the review were utilising advice from the Councils appointed Treasury Management Advisors**,** therefore**,** it is recommended that Link Asset Management undertake an initial high level review of the current investment management arrangements**,** with consideration of the current performance of the fund and fee level, current approach to risk, ethical investment and discretionary investment management and consideration of whether some limited use of a collective investment scheme would be appropriate**.** Following this if a more in depth analysis is required the initial findings and a costing for further analysis will be brought back to Committee for review.

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 total £1.845M 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 (£M)	Investment Income Received (£'000)
2016/17	£1.732M	£38K
2017/18	£1.744M	£48K
2018/19	£1.724M	£41K
2019/20	£1.604M	£35K

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

Appendix A

Investment Risk Strategies

The Welsh Church Act Investments are currently positioned at Risk Strategy 3.

The portfolio is appropriate for an investor with a five-year time horizon or more, who is comfortable with moderate volatility of returns and having typically up to 50% of their portfolio in equities, and who is able to tolerate a loss of up to 12.5% of the value of their portfolio in any one year. This percentage loss is based on what one might reasonably expect in any one year 95% of the time, or 19 years out of 20, and so there may be occasions when the percentage fall is greater than the 12.5% loss stated.

7 – Profile Banding									
OR Risk Level *	**OR Risk Category/ Score ****	**Suitable Long-Term Risk Range**	**Investment Strategy (TAA)**	**Detail**		**Max Equity Weighting**	**Long-Term Risk Forecast**	**Client Risk Profile *****	**Peak to Trough Drawdown**
Very Low	1	0.0% - 3.0%	N/A	No risk clients should be looking at cash based options		N/A	N/A	**A**	N/A
Low	2	3.0% - 5.5%	N/A						
Medium Low	3	5.5% - 8.5%	Strategy 1	Return - CPI	Shortfall Risk - 7.5%	20%	7.30%	**B**	10%
Medium	4	8.5% - 12.0%	Strategy 2	Return - CPI+1%	Shortfall Risk - 10%	40%	8.70%	**C**	20%
			Strategy 3	Return - CPI+1.5%	Shortfall Risk - 12.5%	50%	9.90%	**D**	30%
			Strategy 4	Return - CPI+2%	Shortfall Risk - 15%	60%	11.10%		
Medium High	5	12.0% - 15.5%	Strategy 5	Return - CPI+2.5%	Shortfall Risk - 17.5%	70%	12.50%	**E**	40%
			Strategy 6	Return - CPI+3%	Shortfall Risk - 20%	80%	13.80%		
High	6	15.5% - 20.5%	Strategy 7	Return - CPI+4%	Shortfall Risk - 25%	100%	15.70%	**F**	50%
Very High	7	20.5% - 26.5%	N/A	No Tilney strategy is suitable for truly speculative investor		N/A	N/A	**G**	Unlimited