

Charities and Trusts Committee – 19 November 2019

Investment of Permanent Endowment of Charity Funds

Report of County Treasurer

Summary

1. This report reviews the current investment alternatives for the permanent endowment of Charity Funds where Staffordshire County Council (“the Council”) has been appointed Sole Trustee (also referred to as Custodian Trustee).

Recommendations

2. That the Charities and Trusts Committee (“the Committee”) continue to endorse the role of CCLA Investment Management Limited (“CCLA” - Churches, Charities and Local Authorities) in relation to the investment of the permanent endowment of Charity Funds, where they are made by the Council in its role as Custodian Trustee.
3. That the Committee continues to limit the investment of the permanent endowment of those Charity Funds to investment in the COIF Charities Investment Fund. This is a fund managed by CCLA which is well diversified across a range of asset classes.

Background

4. The Council is the Custodian Trustee for nine Endowment Charities with investment funds and administers the funds of a further Endowment Charity, with a combined valuation of over £10 million as at 30 September 2019 (**Appendix 2**). These Endowment Charities were typically set up for education purposes. As Custodian Trustee, the Council is responsible for directing the affairs of the charities, ensuring they are solvent, well-run and deliver the charitable outcomes for the public benefit for which they have been set up.
5. The Council as Custodian Trustee has a duty to act solely in the best interests of the charities and their beneficiaries with a view to furthering their charitable purposes and for no other purpose whatsoever. The Council must also ensure that any charitable assets are managed independently and prudently in accordance with their charitable purpose and any restrictions in the charities governing documents.
6. Each Endowment Charity has permanent investments from which income is generated and this is what gets used to deliver the outcomes that the charities

have been set up for. Individual trust management committees or “Management Trustees”, who are locally based, decide on how this income is spent. It is important to note that the Council, as Custodian Trustee, decides how permanent investments are invested, and Management trustees are not involved in this investment decision making process.

7. The permanent investments held by each Endowment Charity range in value from about £10,000 to nearly £4.5 million. The permanent investments are managed by the fund manager CCLA and CCLA will attend the Committee meeting on 19 November 2019, to discuss the importance of long- term investments for charities and the different investment options they provide.

Charity Investment Management

8. The Trustee Act 2000 puts a duty of care on the Council as Custodian Trustee to review the suitability and performance of fund managers, and if felt necessary, to change fund managers. This duty of care also expects the Council to consider the need for diversification and the suitability of particular asset classes e.g. equities, bonds, property.
9. When identifying a suitable fund manager, it is deemed important to appoint a manager with a charity specialism since they are more likely to better understand the needs of a charity. In this regard CCLA only manage investments for charities, religious organisations and the public sector and are aware of the ethical and responsible role of charities.
10. Due to the value of assets held by individual Endowment Charities and the practicalities of monitoring multiple fund managers, the review does not warrant looking beyond using one fund manager.

Review of Charity Investment Managers

11. Charity Financials produced a report in September 2018 which looked at the investment managers used by the top 5,000 UK charities. The report confirmed 251 firms act as investment managers to these charities and the top five investment managers by number of clients are shown in the following table.

Table 1. Top 5 most popular charity fund managers

Rank	Investment Firm	Number of top 5,000 clients	Investments (£m)	Main Charity Investment fund
1	Cazenove	287	6,048.6	Charity Multi- Asset Fund
2	Rathbones	238	2,177.0	Active Income and Growth Fund
3	CCLA	211	1,990.2	COIF Charities Investment Fund
4	Investec	205	1,809.5	Tailored to client
5	Sarasin & Partners	192	4,373.9	Sarasin Fund for Charities Thematic UK Equity

Reproduced from Charity Financials Investment Spotlight September 2018 Report published by Wilmington Plc.

12. CCLA are one of the top three most popular fund managers for the top 5,000 UK charities.

13. It is also important to look at the financial performance of fund managers and the following table shows the performance of the main multi asset funds managed for charities by the top three fund managers. Multi asset funds typically invest in a combination of equity, bonds, property, cash and other asset classes.

Table 2. Key fund facts for three funds as at 30 September 2019

Investment Fund Manager	Cazenove	Rathbones	CCLA
Investment Fund	Charity Multi-Asset Fund	Core Investment Fund for Charities	COIF Charities Investment Fund
Fund size	£601.5m	£115.9m	£2,694m
Launch date	2007	2016	1963
Ongoing Charges Figure (OCF) at 30.09.2019*	0.97%	1.20%	0.60%
Dividend Yield	4%	2.51%	3.09%
Distribution	Quarterly	Quarterly	Quarterly
Annual performance to 30 September 2019	2.8%	3.52%	10.68%
Annual performance to 30 September 2018	5.3%	6.58%	13.28%
Annual performance to 30 September 2017	8.3%	-	11.96%

Taken from each of the fund's monthly factsheets at 30 September 2019.

*The OCF includes the Annual Management Charge (AMC), irrecoverable taxes, legal, audit, custody and other third-party costs.

14. The CCLA fund has generated significantly higher returns over the last three years when compared to the other two funds. And having launched over 50 years ago, the CCLA fund has had significantly more experience in meeting the investment needs for charity organisations; it is subsequently the largest of the three funds. In addition, CCLA fund's fees, as depicted by the Ongoing Charges Figure (OCF), are considerably lower and they also deliver a comparable dividend yield.
15. Although past performance should not be seen as an indication of future performance, CCLA's specialism and long experience in the charity sector are important considerations in employing their services to managing charity investment funds. It is therefore recommended that the Committee retain the services of CCLA, and that the permanent investments for those Endowment Charities administered by the Council, continue to be invested in the charity investment funds managed by CCLA.

CCLA Investment Funds

16. CCLA offer a number of different investment funds which include multi-asset pooled funds, such as the COIF Charities Investment Fund, and single asset pooled funds, such as the COIF Charities Fixed Interest Fund and the COIF Charities Property Fund. (COIF stands for Charities Official Investment Funds). The following table shows some key facts and performance figures for 3 CCLA funds.

Table 3. Key CCLA fund facts as at 30 September 2019

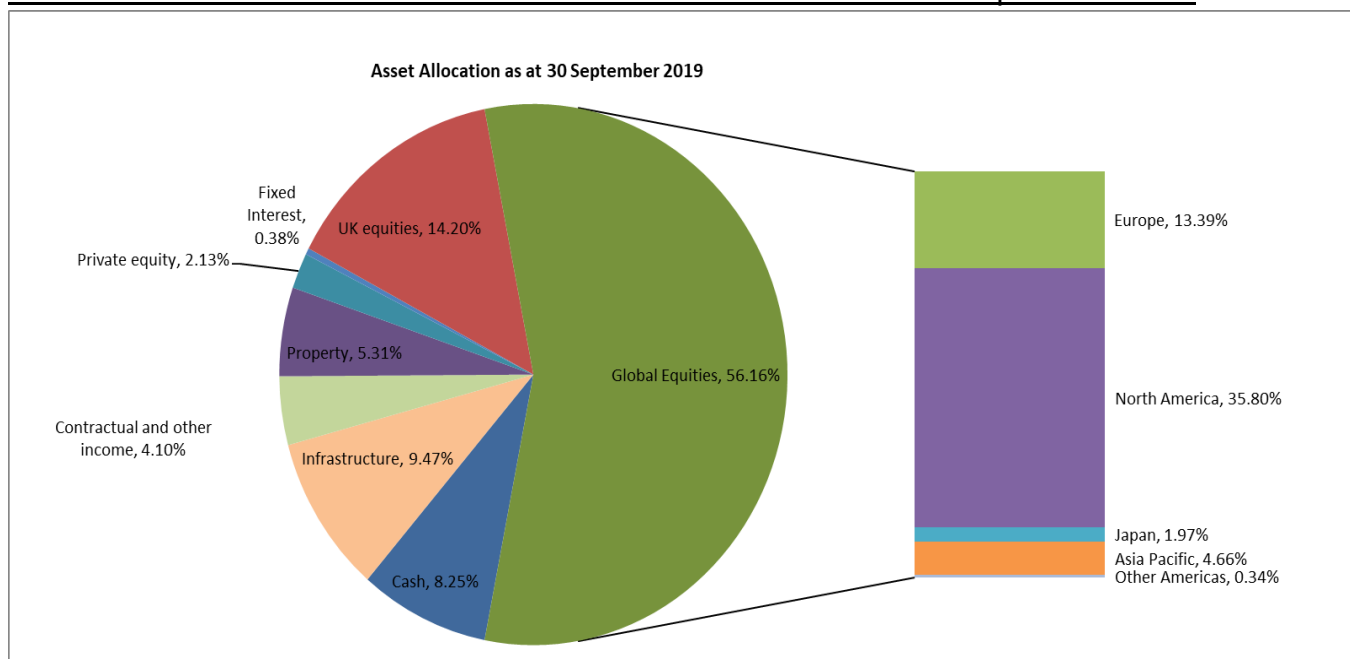
Investment Fund	COIF Charities Investment Fund	COIF Charities Fixed Interest Fund	COIF Charities Property Fund
Fund size	£2,694m	£102m	£636m
Launch date	1963	1990	2002
Ongoing Charges Figure (OCF) at 31.03.2016*	0.60%	0.22%	0.72%
Dividend Yield	3.09%	3.15%	5.48%
Distribution	Quarterly	Quarterly	Quarterly
Annual performance to 30 September 2019	10.68%	9.27%	4.19%
Annual performance to 30 September 2018	13.28%	1.02%	8.33%
Annual performance to 30 September 2017	11.96%	-1.88%	9.38%

17. At a previous meeting on 23 November 2016, the Committee had reviewed the performance of three CCLA funds in Table 3. Following the review, the Committee approved the recommendation to limit Endowment charity investments to the COIF Charities Investment Fund only. This had involved divesting from previous holdings in the COIF Charities Fixed Interest Fund and reinvesting the proceeds into the COIF Charities Investment Fund.
18. Based on the updated performance detailed in Chart 3, it is clear that the decision to transfer investments from the COIF Charities Fixed Interest Fund was justified.
19. In 2016, the Committee also chose not to select the COIF Charities Property Fund for investments due to a slowing UK property market. Those reasons are still valid today amidst concerns over a global economic slowdown and the risks to the UK economy from a potential no-deal Brexit, as the UK government struggles to negotiate its withdrawal from the European Union.

COIF Charities Investment Fund

20. The COIF Charities Investment Fund is designed to meet both growth and income requirements. The following chart shows that the fund is well diversified with exposure to a spread of investment classes. The majority of the exposure is in equities which currently account for over 70% of the fund. Given the fund’s objectives, this is an acceptable level for equities and not dissimilar to the strategic asset allocation of the Staffordshire Pension Fund.

Chart 1. COIF Charities Investment Fund Asset Allocation as at 30 September 2019



21. Equities are an essential investment class for the long-term growth of investment portfolios which seek to participate in corporate profits. In particular, equities allow portfolios to access corporate dividends. Indeed, it is this income element that enables Endowment charities to deliver the outcomes they have been set up for, such as providing financial assistance to purchase additional equipment for schools, grant prizes and awards to students and pay for some school trips.
22. The COIF Charities Investment Fund has the ability to rebalance between different sectors and this can be significant depending on the investment environment. Since the 'Brexit' referendum in June 2016 there has been considerable uncertainty and concerns over the performance of the UK economy. The COIF Investment Fund has continued to rebalance its UK equity exposure from 27% in September 2016 to 14% in September 2019; conversely exposure to global equities increased from 44% to 56% in the same period.
23. Bonds continue to be a less attractive asset to hold with gilt yields remaining near historical lows. This has seen the exposure to fixed interest in the COIF Charities Investment Fund fall marginally from an already low level; from 0.5% in September 2016 to 0.38% in September 2019.

Conclusion

24. Paragraph 9 of this report set out the role of the Charity and Trusts Committee under the Trustee Act of 2000. As one of the top 3 fund managers, with their longstanding focus on the Charity Sector, CCLA are still considered to be a suitable fund manager for the permanent investments of the various Endowment Charities for which the Committee is Custodian Trustee.
25. Furthermore, the report demonstrates that the COIF Charities Investment Fund has outperformed its immediate peer group and remains well diversified across a range of asset classes in various market circumstances. Because of this, there is no need for the Committee to consider making investments in single asset class funds e.g. Property.

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Appendix 1

Equalities Implications: None identified.

Legal Implications: Charity trustees have a duty to act solely in the best interests of the Charity and its beneficiaries with a view to furthering its charitable purposes and for no other purpose. They must also ensure that any charitable assets are managed independently and prudently in accordance with their charitable purpose and any restrictions in the charity's governing document.

Resource and Value for Money Implications: The Committee may provide for the relevant Charity's income and capital to be put towards meeting any reasonable expenses properly incurred when acting on behalf of the Charity.

Risk Implications: Decisions made by the Committee must be made in its capacity as Trustee only and must ensure that any decisions are made in accordance with the Charities Act 2011 and Charity Commission guidance.

Climate Change implications: None identified.

Health Impact Assessment Screening: No direct implications.

Summary of Educational Endowment Charities administered by Staffordshire County Council

Name of Endowment	Custodian Trustee	Market Value as at 31 March 2019	
		CCLA COIF Charities Investment Fund (£)	CCLA COIF Charities Fixed Interest Fund (£)
Brewood Educational Endowment*	Staffordshire County Council	2,127,155	0
Brewood Middle School** Charity	Brewood Middle School	458,304	63,646
Rugeley Educational Endowment	Staffordshire County Council	2,442,711	0
Stafford Education Centre Charity	Staffordshire County Council	4,467,119	0
Stafford Educational Endowment	Staffordshire County Council	526,383	0
Stone Alleyne's High School Charity	Staffordshire County Council	51,918	0
Tamworth QEMS & Rawlett Schools Endowment	Staffordshire County Council	264,099	0
Tamworth Youth Centre Charity	Staffordshire County Council	62,036	0
Thomas Russell Foundation Charity	Staffordshire County Council	9,810	0
Uttoxeter Alleyne's Foundation Endowment	Staffordshire County Council	31,964	0
Total		10,441,499	63,646

*Brewood Educational Endowment also hold units in COIF Investment Fund Accumulation Shares with a value of £24,559 at 31 March 2019.

**Brewood Middle School, as custodian trustee for Brewood Middle School Charity, chose to retain their holding in the COIF Charities Fixed Interest Fund.