Common Good and Trusts Investment Sub-Committee

Due to Scottish Government guidance relating to Covid-19, this meeting will be held remotely

Tuesday, 29th March, 2022 - 9.15 a.m.

AGENDA

		Page Nos.
1.	**APOLOGIES FOR ABSENCE**	
2.	**DECLARATIONS OF INTEREST** – In terms of Section 5 of the Code of Conduct, members of the Committee are asked to declare any interest in particular items on the agenda and the nature of the interest(s) at this stage.	
3.	**MINUTE** – Minute of the meeting of the Common Good and Trust Investment Sub-Committee of 29th April, 2021.	3 - 4
4.	**COMMON GOOD AND TRUST FUNDS** – Report by the Executive Director Finance and Corporate Services.	5 - 9
5.	**COMMON GOOD AND TRUST FUNDS INVESTMENT POLICY DOCUMENT** – Report by the Head of Finance.	10 - 16

Members are reminded that should they have queries on the detail of a report they should, where possible, contact the report authors in advance of the meeting to seek clarification.

Lindsay Thomson
Head of Legal and Democratic Services
Finance and Corporate Services

Fife House
North Street
Glenrothes
Fife, KY7 5LT

22 March, 2022

If telephoning, please ask for:
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THE FIFE COUNCIL - COMMON GOOD AND TRUSTS INVESTMENT SUB-COMMITTEE – REMOTE MEETING

29th April, 2021 **2.00 p.m. – 3.15 p.m.**

PRESENT: Councillors Dave Dempsey (Convener), Mino Manekshaw and Alistair Suttie.

ATTENDING: Elaine Muir, Head of Finance, Laura Robertson, Finance Operations Manager and Lesley Kenworthy, Business Partner, Finance; Helena Couperwhite, Manager - Committee Services and Wendy MacGregor, Committee Officer, Legal and Democratic Services.

ALSO IN ATTENDANCE: Jordan Irvine, Hymans Robertson LLP.

APOLOGIES FOR ABSENCE: Councillor(s) Altany Craik, Colin Davidson and Fiona Grant.

9. LACK OF QUORUM

In accordance with Standing Order No. 4, members present determined whether to continue to meet as the meeting was inquorate.

Decision

S The Committee:-

(1) unanimously agreed to continue with the meeting; and

(2) agreed that a note of the discussion and any recommendations or decisions would be submitted to the next meeting of the Policy and Co-ordination Committee for agreement.

10. DECLARATIONS OF INTEREST

No declarations of interest were submitted in terms of Standing Order No. 7.1.

11. MINUTE

The Sub-Committee considered the minute of the Common Good and Trusts Investment Sub-Committee meeting of 26th November, 2020.

Decision/

Decision

S The Sub-Committee agreed to approve the minute.

12. COMMON GOOD AND TRUST FUNDS

The Sub-Committee considered a report by the Executive Director of Finance and Corporate Services, updating members on the market value of investments of the Common Good and Trust Funds and of the investment performance as at December 2020.

Decision

The Sub-Committee noted the contents of the report.

13. REVIEW OF INVESTMENT ARRANGEMENTS - COMMON GOOD AND TRUST FUNDS - GLOBAL EQUITY CONSIDERATIONS

The Sub-Committee considered a report by the Head of Finance providing details of the outcome of a review undertaken by Hymans Robertson, of the current investment strategy for Common Good and Trust Funds. Members were provided with further information in respect of investing in Global Equities as opposed to UK equities only.

Decision

S The Sub-Committee:

(1) approved the recommendation made by Hymans Robertson to implement a single investment mandate which was consistent with the current approach adopted;

(2) approved the recommended approach for the funds to achieve global equity exposure through a passive market-cap index, preferably with climate or ESG tilt if practicable; and

(3) acknowledged that recommendation number three on the report, could not be agreed, until a report providing further recommendations relating to governance, investment strategy, investment principles and the fund manager selection, be submitted to a future meeting of the Sub-Committee for consideration, following a number of questions raised during discussion by the members.

29th March, 2022

Agenda Item No. 4

Common Good and Trust Funds

Report by: Eileen Rowand, Executive Director of Finance and Corporate Services

Wards Affected: All

Purpose

The purpose of this report is to provide an update on the market value of investments of the Common Good and Trust Funds. This report is provided on an accrual basis and is to inform members of the investment performance over the last financial year.

Recommendation

Members are asked to note this report.

Resource Implications

None.

Legal & Risk Implications

None.

Policy & Impact Assessment

An EqIA is not required because the report does not propose a change or revision to existing policies or practices.

Consultation

N/A.

1.0 Background

1.1. Janus Henderson took over the management of the Common Good and Trust Funds investment portfolio in March 2001. As a result, £2.777m of Common Good and Trust funds were invested in the Preference & Bond Fund and the UK Equity Income Fund, with £1.725m in relation to the Fife Educational Trust Fund being invested in a separate portfolio on 8 June 2007.

1.2. The investment strategy for the Fife Educational Trust Fund and Common Good and Trust Funds is the same: to generate income whilst preserving and growing capital.

1.3 Work is ongoing in conjunction with Investment Advisers, Hymans Robertson, to rebalance the funds and move to a single investment mandate. The aim being for funds to achieve global equity exposure preferably with climate tilt where practicable. This is subject to a separate report on this agenda.

2.0 2020-21 Performance

2.1 The current valuations for these funds are shown below: -

	Common Good & Trust Funds	**Fife Educational Trust Fund**	**Total**
	£	£	£
Valuation as at 31 March 2020	4,525,791	1,305,095	5,830,886
Increase / (decrease) in year	912,927	411,389	1,324,316
Valuation as at 31 March 2021	5,438,718	1,716,484	7,155,202

Janus Henderson has provided some additional commentary on the performance of the fund, which is attached as Appendix 1

2.2 Income earned by Janus Henderson Investors up to 31March 2021 is also shown, as is the investment Income as a percentage of the market value at the end of the financial year (i.e. the return)

	Common Good & Trust Funds	**Fife Educational Trust Fund**	**Total**
	£	£	£
Investment Income earned in year	99,909	61,382	161,291
% of Valuation as at 31 March 2021	1.84	3.58	2.25

2.3 This income is credited to the Common Good and Trust Fund revenue accounts and used to support expenditure in year.

2.4 During the year to end March 2021 the Common Good and Trust Funds have made disbursements of £325,652.67 and the Fife Educational Trust made disbursements of £76,061.64.

3.0 Conclusions

3.1 The market value of the Common Good and Trust Funds have improved during the year and have an increased value at 31 March 2021.

Appendix 1 – Janus Henderson Preference & Bond Fund Commentary

Report Contact
Laura Robertson
Finance Operations Manager
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UK Equity Income & Growth Fund Commentary - 12 months to end March 2021

The 12-month period to the end of March 2021 was a good performance period for the Fund relative to its FTSE All-Share benchmark* and UK Equity Income peer group*. During this period the Fund rose 37.4% relative to the FTSE All-Share which rose 26.7%. The Fund's IA UK Equity Income peer group* rose 32.5% over the same time period (all figures on a total return basis).

This 12-month period captures the strong recovery in the UK equity market following the sharp fall seen in the first quarter of 2020 as a result of the pandemic. The 12 months could be characterised into two distinct approximately six-month periods; the first prior to the Covid-19 vaccine read-outs, and the second after the vaccine read-outs. In the first six-month period, the market recovery was broadly led by more defensive sectors such as healthcare and utilities, where earnings were comparatively less affected by the pandemic. In the second six-month period, cyclical sectors including financials and consumer discretionary materially outperformed, as the market began to factor in a phased return to pre-covid trading conditions and earnings levels for these sectors.

For this portfolio, the largest sector overweights include cyclically sensitive sectors such as industrials and financials. Therefore it was during the second six-month period, following the positive vaccines news, that the Fund materially outperformed. This outperformance at the sector level was driven by the overweight position in industrials and financials, and the underweight position in more defensive sectors such as consumer staples.

From a transactions perspective, a number of portfolio sales were driven by takeover approaches during the year, including RSA (which was sold to a consortium of insurance peers), Arrow Global and Entain (both of which were subsequently sold from the portfolio). Offsetting these sales, purchases included additions to the banking sector. This addition was driven by the view that excess capital positions could lead to attractive dividend yields once dividends were fully resumed, and that the sector could benefit from any increase in interest rates from historically low current levels. Other new positions during the year included telecoms firm BT, retailer Marks & Spencer and publisher Reach.

From an income perspective, UK dividends were reduced sharply during this period and taking the four quarterly dividends (starting from the dividend paid at the end of May), on a 12-month basis the dividend for the I Inc share class fell 46% year on year. From a 2020 calendar-year perspective this compares to a 43% fall in dividends in the UK market (Source: Q3 2021 Link report). Following the end of the period, both the UK market and this portfolio have seen a good recovery in dividends.

The Fund ended the 12-month period continuing to hold a significant weight in the industrials and financials sectors. In our view a number of industrial companies have, over the course of the pandemic, materially reduced costs, for example closing down their most inefficient manufacturing facilities. This could lead to higher operating margins following the pandemic than prior to the pandemic, and therefore the potential for faster earnings growth than the market anticipates as sales recover. For the financials sector (such as banks), in our view balance sheets are in a much stronger position than following the financial crisis, leaving the sector in a better position to return excess capital to shareholders via dividends and share buybacks.

Footnote. * Used for comparative purposes only.

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D10016

29th March, 2022

Agenda Item No. 5

Common Good and Trust Funds – Investment Policy Document

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide an Investment Policy Document which sets out the governance arrangements to be adopted by the Committee for managing the Funds' assets. A draft policy document has been provided for consideration and discussion.

Recommendation

Members are asked to:

1) Consider the proposals for inclusion in an Investment Policy Document
2) Review and comment on the Draft Investment Policy Document with a view to adopting this document for the governance arrangements for the Funds' assets.
3) Remit the Head of Finance to work with the adviser to finalise implementation and establish governance arrangements once investments are restructured
4) Delegate quarterly reviews and subsequent re-balancing to Head of Finance

Resource Implications

Commissioning further work on this area from investment adviser will incur a cost which will be charged to the funds on a proportionate basis.

Legal & Risk Implications

There are risks associated with all investments and the likely return that the Common Good and Trust Funds will receive depends on the investment mandate and market volatility.

Policy & Impact Assessment

An EqIA is not required because the report does not propose a change or revision to existing policies or practices.

Consultation

Consultation with Investment Advisers Hymans Robertson has been carried out in preparation of this report.

1.0 Background

1.1 It has been some considerable time since a review of the current investment arrangements for Fife Educational Trust, Common Good and Trust Funds was undertaken. To address this, Hymans Robertson have undertaken an independent review of the investment style and recommended alternative mandates.

1.2 The results of this review were presented to Common Good and Trust Fund Investment Sub-Committee at its meeting on 26 November 2020, with subsequent reports recommending a review of equity allocations. The recommended approach for the funds to achieve global equity exposure through a passive market-cap index, preferably with a climate or ESG tilt if practicable was approved.

1.3 Hymans Robertson continue to source available funds bearing in mind the level of investment available and the likely transaction costs associated with investment. During discussion and research on the historical nature of investments to establish the “as is” position it became apparent that there was a lack of an Investment Policy or Strategy document.

1.4 Further, Audit Scotland, the Council’s External Auditors have noted that there are significant cash balances held by Trust Funds and have queried the policy for investing this cash. Response to the audit point included a review of the cash management policy.

1.5 In order to address these issues, Hymans Robertson were commissioned to draft an Investment Policy Document (IPD) for the committee to review and adopt.

1.6 The purpose of the IPD is to document the governance arrangements of the Funds and detail the Committee’s approach to managing the Funds’ assets. The document sets out details of the investment strategy, the investment objectives and investment policies the Committee adopts.

2.0 Key Proposals

2.1 To improves the overall governance, Hymans Robertson have suggested that some simple policies are adopted;

- Use capital gains from the Funds assets to generate additional income;
- Adopt rebalancing ranges in order to maintain as asset allocation that is broadly in line with the strategic benchmark; and
- Reinvest excess cash into the investment strategy to reduce the level of cash drag

2.2 Hymans Robertson recommend the IPD is reviewed at least every 3 years

2.3 Full details of the income and rebalancing considerations as well as a Draft Investment Policy Document are covered in the attached paper prepared by Hymans Robertson.

3.0 Conclusions

3.1 It has been some considerable time since the investment arrangements for Common Good and Trust funds were reviewed. On this basis it is recognised that an Investment Policy Document be considered with a view to document the governance arrangements and detail the Committee's approach to managing the Funds' assets.

Report Contact:-

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Investment Policy Document

Introduction

This paper is addressed to the Committee of the Common Good and Trust Funds.

It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing.

Purpose

We have drafted an Investment Policy Document ("IPD") for the Committee to review and adopting – this is included as an Appendix. The purpose of this IPD is to document the governance arrangements of the Funds and detail the Committee's approach to managing the Funds' assets. The document sets out details of the investment strategy, including the investment objectives and investment policies that the Committee adopts.

We recommend that the Committee reviews the IPD at least every three years and more frequently if any significant changes are made to the investment policy.

Key proposals

To improve the overall governance of the Funds we have suggested that the Committee adopts some simple policies. We provide details of each of the policies below, but in summary we are proposing that the Committee:

- Use capital gains from the Funds assets to generate additional income;
- Adopt rebalancing ranges in order to maintain an asset allocation that is broadly in line with the strategic benchmark; and,
- Reinvest excess cash into the investment strategy to reduce the level of cash drag.

Income considerations

The Committee is currently considering a move from the current UK equity fund managed by Janus Henderson to a passively managed global equity fund. As previously noted, UK companies typically pay a higher level of dividend compared to overseas companies and consequently the new proposed strategy is expected to deliver a lower level of income going forward.

In recent years, the current strategy has delivered a yearly income of around £250k, equivalent to an income yield of around 3.6% p.a. The current active equity portfolio with Janus Henderson is estimated to deliver between £125k to £150k of this income with remainder coming from the Janus Henderson Preference & Bond fund. Should the Committee move to a passive global equity mandate, we'd expect the income from the equity portfolio to fall to around £70k (equivalent to a 2% reduction in income from the Scheme's equity allocation). These numbers are based on asset valuations and income levels as at 31 December 2020.

To compensate for this, the Committee could instead realise capital gains by selling some of the equity exposure over time. In order to broadly equate to the level of income the Scheme currently receives, we'd recommend disinvesting 2% of the equity exposure each year. We recommend this is done on a phased approach, with 0.5% of the Scheme's equity allocation being disinvested each quarter. This should help to maintain the current level of income received by the Funds. Of course, this will depend on market movements and we suggest that the appropriateness of this is reviewed over time.

Rebalancing considerations

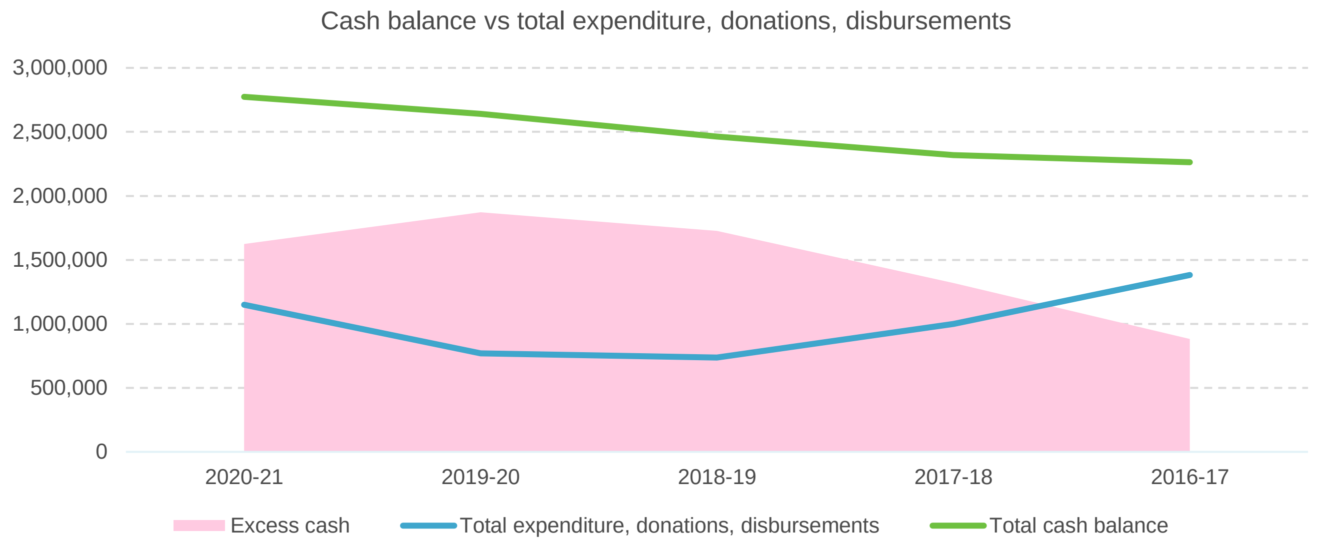
Within the IPD we have suggested adopting a rebalancing range of +/-5% between the equity and bond component of the portfolio. The key aims of this are to:

- Maintain the desired strategic risk and expected return balance across the Funds assets;
- Lock in some of the gains when a particular asset class or manager outperforms relative to the others; and,
- Buy into relatively 'cheap' asset classes or managers when they underperform.

We believe that a +/-5% rebalancing range strikes a balance of achieving the above objectives whilst avoiding the need to frequently rebalancing the portfolios.

Cash buffer

The Chart below shows the cash balance vs the total level of outgo in each Scheme year.



We would make the following high level observations:

- Over the last 5 years, the range of total spend is between £737k - £1,382k (average of £1,007k).
- Over the last 5 years, the cash balance has been between £2,263k - £2,774k (average of £2,492k)
- On average the Funds have held c£1.5m more cash than is required for the level of spending in that year.

To help reduce cash drag within the Funds, we have suggested within the IPD that any excess money is reinvested in line with Funds strategic asset allocation. Based on previous experience, and allowing for a buffer for additional unforeseen expenditure, we've suggested holding a maximum cash balance of £1.8m.

We kindly ask the Committee to consider the above proposals and the broader IPD on the next page and provide any comments or updates at the next Committee meeting.

Prepared by:-

Jordan Irvine, Senior Investment Consultant
For and on behalf of Hymans Robertson LLP

General 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, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix: Draft Investment Policy Document

1. Introduction

1.1. The Investment Policy Document ("IPD") has been prepared by the Committee of the Common Good and Trust Fund and sets out the details of the Funds investment arrangements.

1.2. The IPD will be reviewed at least every three years, and more frequently if there are material changes to the Funds.

1.3. The Committee has ultimate responsibility for decision making in investment matters and will receive advice from the Investment Adviser on regulated matters.

2. Objectives

2.1. The Common Good funds consist of a number of assets and properties which provide a source of income to the Funds. The first call on this income is the maintenance and up-keep of the Common Good properties. Thereafter, the income is available for distribution in the interests of the inhabitants of the area where all expenditure of this nature is subject to grant application and an approval process.

2.2. The Charities and Trust funds have been set up from donations made by various individuals and organisations and consist of a number of assets such as land & buildings, investments and cash balances. These assets provide income from rent, interest and investments which is available for distribution in the interests of the beneficiaries of the trust.

2.3. Recognising the above, the Funds overarching objective is to generate income whilst preserving and growing capital. Below are what the Committee considers to be the key requirements of the investment strategy to help deliver this objective:

- Ability to deliver long-term enhanced returns;
- Ability to deliver a predictable level of income; and
- Diversification by asset class and geography.

3. Investment strategy

3.1. The Committee has adopted a strategic asset allocation for the Funds which reflects the objectives set out above and the Committee's risk appetite.

3.2. The current strategy is expected to deliver a long-term return above cash of 3.1% p.a. with an annual volatility of around 10%.

3.3. The strategic benchmark for both the Common Good funds and the Charities and Trust funds is set out in the table below.

Asset Class	Strategic benchmark	Rebalance ranges
Equities	**60%**	**+/- 5%**
Fixed income	**40%**	**+/- 5%**

3.4. To keep the Funds allocation broadly in line with the strategic benchmark, the Committee has established tolerance ranges (+/-5%) so as to manage the risk of unintended asset exposure. The asset allocation will be monitored quarterly and if breached the Committee will seek to rebalance the portfolio to align with the strategic benchmark as set out above.

4. Implementation considerations

4.1. Within each asset class, the appointed manager will maintain a diversified portfolio of underlying holdings across a range of sectors and geographies. The table below shows a breakdown of the asset allocation and the objectives of each mandate.

Asset class	Fund manager	Objective	Strategic target
Equities	*TBC*	Track a global equity benchmark	60%
Fixed income	Janus Henderson	Actively managed bond fund investing across a range of fixed income assets	40%

4.2. The Funds equity assets are currently invested in a UK equity mandate managed by Janus Henderson. The Trustee has agreed to move to a passive global equity mandate and is in the process of implementing this change.

4.3. The Funds bond allocation is invested in Janus Henderson's Preference & Bond Fund. The main focus of this mandate is to deliver income and provide diversification across a range of asset classes within fixed income including: government bonds, investment grade bonds, high yield bonds and loans. This is an actively managed fund where the manager will tilt the portfolio depending on prevailing market conditions.

4.4. The majority of the Funds investments may be realised quickly if required, however the expectation is that these will be long-term investments.

4.5. Day to day investment decisions have been delegated to Investment Managers in accordance with guidelines agreed with the Committee. The Investment Managers are authorised and regulated by the Financial Conduct Authority, and are responsible for the management of the underlying investments.

4.6. In selecting new Investment Managers for the Scheme, the Trustee and their Investment Adviser consider potential managers' approaches to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

4.7. The Committee reviews the appropriateness of the Funds investment strategy on an ongoing basis. This review includes consideration of the continued competence of the Investment Managers with respect to performance within any guidelines set.

5. Cashflow management

5.1. The Funds will hold sufficient cash to meet expected expenditure, disbursements, and grants for the forthcoming year. Based on previous experience this is not expected to be more than £1.8m. Surplus cash will be reinvested in line with Funds strategic benchmark.

5.2. The Committee will make disinvestments from the Funds equity holding in order to supplement the income from the Funds other assets. The Committee will aim to make quarterly disinvestments, equivalent to 0.5% of the Funds equity allocation.