Church of England

Church of England delivers divine returns

John Plender analyses the remarkable investment success of the religious endowment

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The Church Commissioners manage close to £8bn of assets to support the Church of England © Getty

33 MINUTES AGO by: **John Plender**

As a pension fund trustee, I greatly envy people who oversee perpetual endowments. They have the luxury of being able to capture illiquidity premia in alternative investments such as property, forestry and commodities, taking decisions that may not pay off for years. That advantage is largely denied to mature pension funds that pay out a high proportion of their revenue to pensioners.

Endowment liabilities are less rigid than those of pension funds. And such funds often have a single client, such as a university or religious body, so the investment strategy may not have to deal with conflicting client requirements and time horizons.

These thoughts arise from an advance reading of the latest annual report of the Church Commissioners, published on Sunday, who manage close to £8bn of assets to support the work and mission of the Church of England, including clergy pay and pensions. The total return on assets in 2016 was a heady 17.1 per cent, helped by the impact of the post-Brexit referendum plunge in sterling on the commissioners' holdings of global equities which, at 19.3 per cent, constitute the biggest asset class. For many a hedge fund that would be a return to die for.

More importantly for a perpetual endowment, the average annual return over 30 years has been an impressive 9.6 per cent, nicely ahead of the target of inflation plus five per cent. That has been achieved despite excluding sectors such as tobacco, arms and alcohol on ethical grounds. Over the past 10 years, the above-target return of 8.3 per cent compares with 8.1 per cent over a comparable period at the Yale Endowment, the most admired fund in the sector.

This performance was achieved with minimal exposure to fixed interest over the longest bond bull market since the second world war. And, of course, the commissioners are under no pressure now to invest in horribly overvalued government bonds — another notable advantage of not having to match liabilities closely.

What makes the performance still more remarkable is that 25 years ago the commissioners were in a terrible mess. Having started the 1980s, a cruel decade for real estate investment, with more than two-thirds of the portfolio in property, they underperformed very badly. This dire asset-allocation error was compounded by an ill-judged plunge into speculative property development on borrowed money. In an investigation for the Financial Times in July 1992, I found that the commissioners had racked up several hundreds of millions in losses on these purchases. Appearing on the day of the general synod, a gathering of the Church of England's top policymakers, the story came as a deep shock to George Carey, the archbishop of Canterbury at the time, who instigated an overhaul of investment and governance processes.

Today, the commissioners run a very diverse multi-asset strategy. While nearly a quarter of the portfolio is in property, the investment is spread across commercial, residential and agricultural property, together with indirect property and land held with a view to obtaining planning consent for housing. This is all managed in-house. Other asset categories include private equity, credit, multi-asset strategies and timber, which the commissioners started buying in 2010 when they felt agricultural land was becoming too expensive. They are now the largest owners of forests in the UK after the Forestry Commission, and have had a five-year average annual return on their investment of 15.4 per cent.

The commissioners like to exploit their freedom as an endowment by taking seriously contrarian positions. The most eye-catching at present is an aversion for passive investing. Investment director Tom Joy argues that the performance of active versus passive funds is highly cyclical and that the fund management business is too obsessed with the recent past. With active managers underperforming at the highest rate on record, this is the last moment, he thinks, to be shifting from active to passive.

The commissioners believe that much of their competitive advantage comes from a very intensive approach to management selection. Most of their managers are boutique firms, not household names. And they aim to avoid managers that have marketing departments. At the same time, a firm commitment to stewardship means that they vote all the shares in these outsourced portfolios and cast 459 votes against directors of UK companies last year.

Sir Andreas Whittam Smith, the outgoing first church estates commissioner, is unquestionably retiring on a high note after 15 productive years at the helm.

John Plender is an FT columnist

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