

COUNCIL

Investment policy

Meeting: 29 July 2015

Status: for decision

Lead responsibility: Josie Lloyd
(Director of Resources)

Paper author: Josie Lloyd

Purpose

1. This paper sets out a revised investment policy statement at Annex 1 for the Council's consideration.
2. Council is asked to:
 - 2.1 **note** the work undertaken in respect of investment policy development;
 - 2.2 **consider** the investment policy statement as recommended by ARC, provide comments and adopt it; and
 - 2.3 **consider and adopt the recommendations of ARC** particularly in relation to longer term fee setting.

Strategic Objective

3. The work to develop our investment policy forms part of the Resources work programme in the 2015/16 business plan, specifically Financial Management – Developing our financial management skills and oversight. This supports our strategic objective Organisational change – building a sustainable and modern organisation. The Director of Resources is responsible for this area of our work
4. It is set against the backdrop of a changing financial environment as a result of the disposal of 41 Harley Street which brings an ideal opportunity to start considering longer term financial planning.
5. Paragraph 1.5 of the ARC's terms of reference require it to *“review the adequacy of and changes to the investment policy ensuring it is effective and consistent with Council's view and provide assurance as to the appropriateness and robustness of it before recommending its approval by Council”*.

Risks

6. Council expressed the desire to ensure that the funds received for the sale of 41 Harley Street are invested in the long term so as to preserve the asset base for as long as possible.

7. The proposed revised investment policy will help to ensure that longer term investment and financial goals are set.
8. The ethical investment stance articulated in the policy statement is moderate and fits well with our mission. Care needs to be taken in developing our stance further in that we need to ensure we do not inadvertently exclude good investments or fall foul of any relevant legislation.

Background

9. Council appointed Brewin Dolphin as investment advisers and managers in March 2015. At the time of their appointment it was clear that the investment policy that was in place would need to be updated because the current policy does not permit any investments that would be suitable for generating a long term inflation busting income stream.
10. Items included in the tender for this service included assistance with developing an investment policy and training for Council in relation to financial investments and investment risk.
11. This paper represents the first stage in the process of developing a longer term financial strategy for GOC.
12. Council has committed itself to undertaking the discipline of longer term financial planning. This commitment was made particularly at the point Council agreed to sell 41 Harley St and rent office space from which to run the business of the charity.
13. Charity rules require attention to be paid to the development of a clear strategy for investing activities to support delivery of the objectives of the charity.

Analysis

14. The existing investment policy was somewhat fit for the previous financial circumstances where in effect GOC was managing its working capital during the year.
15. However, even with reserves of about £1.5m above this level investing only in cash deposits (as the previous policy limited us to) was not really sufficient to ensure that the real value of the cash cushion is maintained in an economy where there is almost always inflation.
16. The previous policy had some good points in that all deposits were secure and not exposed to currency risk, however the level of return generated has been very low indeed especially since interest rates have been so low. Returns of

around 1% are the most that can be achieved and even these only when investing for 12 months.

17. It was recognised at the point Council appointed Brewin Dolphin as investment managers that our stance on investment and our policy would need to change in order to allow suitable investments to meet Council's expectation for capital maintenance and income generation.
18. The revised investment policy statement at Annex 1 and its associated glossary at Annex 2 are the proposed draft of a revised policy for this purpose and have been generated with the assistance of Brewin Dolphin.
19. ARC considered this draft in June 2015 and their comments and suggestions have been included in the revised draft presented here. ARC recommend the revised statement to Council.
20. Council is asked to examine the statement and to consider whether it is fit for the purpose intended.
21. We have included a statement on ethical investment which excludes investing in organisations that derive more than 10% of their income from the tobacco industry. This is a first step in considering ethical investing which fits well with our role in protecting the health and safety of the public. We will develop our stance further on this in future in line with Council's stated stance on corporate sustainability, for example in respect of fossil fuels and UK organisations that support the Living Wage.

Impacts

22. Identify any implications decisions by Council may have on:
 - 22.1 GOC's reserves – as detailed in the paper and annexes
 - 22.2 GOC budget – as detailed in the paper and annexes
 - 22.3 Legislation - none
 - 22.4 Resources – none in addition
 - 22.5 Equality and Diversity - none
 - 22.6 Human Rights Act - none
23. This proposed investment policy statement is new for GOC. This is not innovative working though.
24. This work has been prompted by the changed financial circumstance GOC will be in once the property at 41 Harley St sale is complete (expected in September 2015).

Devolved Nations

25. There are no implications/differences in relation to this area and the devolved nations.
26. This report does not need to be published in Welsh.

Communications

27. The last review of the investment policy took place in January 2013.
28. If Council support the revised policy statement then this will be adopted immediately and used as the basis for our investment strategy.

Recommendations

29. Council is asked to:
 - 29.1 **note** the work undertaken in respect of investment policy development;
 - 29.2 **consider** the investment policy statement as recommended by ARC, provide comments and adopt it; and
 - 29.3 **consider and adopt the recommendations of ARC** particularly in relation to longer term fee setting.

Timeline for future work

30. Assuming that Council adopts this draft investment policy and scenario this will be used to instruct Brewin Dolphin when they are asked to invest our funds from the sale of 41 Harley St.

Attachments

- Annex 1 - Investment policy statement
- Annex 2 - Investment policy glossary

INVESTMENT POLICY STATEMENT

Dated: x July 2015**Name:** General Optical Council**Charity Registration Number:** 1150137**1. Introduction***1.1. General background and financial objectives:*

- 1.1.1. To protect the public by promoting high standards of education, performance and conduct amongst Opticians.
- 1.1.2. The Council has assets which it is allocating for investing of approximately £5.5m as of 30 September 2015
- 1.1.3. These form the accessible reserves of the Council
- 1.1.4. The Trustees aim to maintain separate balances equivalent to approximately 2 months expenditure (c £1m) as a short-term cash reserve

1.2. Investment powers

- 1.2.1. The Trustees have the wide powers of investment outlined in the Trustee Act 2000
- 1.2.2. This also includes the power to delegate to an investment manager.
- 1.2.3. The charity's governing document is the Opticians Act 1989 (as amended 2005).

2. Investment Objectives

- 2.1 The broad objective of the funds is to provide a source of income which, when taken together with the registration income can provide sufficient money every year to enable the Council to meet its objectives. In particular the Council is mindful of its increased overhead as a result of moving into larger premises.
- 2.2 The investment objective is to enhance the value of the assets after taking account of inflation by investment in a diversified portfolio of equities, fixed income bonds, stocks and cash.
- 2.3 The income objective is to earn an attractive level of income from the invested portfolio which has the ability to grow over time.
- 2.4 These targets will be discussed at least annually with the investment managers.

- 2.5 Certain short term deposits are held separately to the invested portfolio, with the majority on fixed term deposit.
- 2.6 The Trustees wish to adopt an exclusionary screening policy.

3. Risk

3.1 *Attitude to risk*

- 3.1.1 The Council relies on its investments to help fund its activities. The key risk to the long term sustainability of the Council is inflation, and the assets should be invested to mitigate this longer-term impact.
- 3.1.2 The Trustees understand that this is likely to mean that investment will have an emphasis in real assets and that the capital value may fluctuate.
- 3.1.3 The Trustees are able to tolerate volatility in the capital value of the portfolio, as long as the charity is able to meet its short term commitments through either income or the liquidation of capital assets.
- 3.1.4 The Trustees consider that their appetite for risk on investing activities is medium.

3.2 *Assets*

- 3.2.1 The Council's assets can be invested widely and should be diversified by asset class, by manager and by security.
- 3.2.2 The portfolio may be invested in fixed interest, UK and overseas equities, property, private equity and any other asset that is deemed suitable.
- 3.2.3 The following asset types are prohibited:
- purchasing securities on margin
 - futures/commodity contracts
 - short sales
 - leveraged derivative securities
 - speculative derivatives
 - Other complex financial instruments
- 3.2.4 The Trustees wish the portfolio to operate to the following asset allocation ranges:

Asset	Benchmark %	Ranges %	Index
Fixed interest/cash	20	5 – 25	FT British Government All Stocks
UK equities	50	40 – 60	FTSE All Share
Overseas equities	20	10 – 30	FTSE World – Ex UK (Sterling terms)
Property	5	0 – 20	IPD Property Index
Other	5	0 – 20	RPI

3.3 *Currency risk*

3.3.1 The majority of the Council's liabilities are in sterling.

3.3.2 Given this, the majority of the portfolio should be maintained in Sterling assets. Where other currency assets are included, the investment manager should consider currency issues.

3.3.3 Investment may be made in non-Sterling assets, but should not exceed 40% of the total investment portfolio value.

3.4 *Credit/Counterparty exposure risk*

3.4.1 A minimum of 70% of the fixed interest investments should be of investment grade

3.4.2 Credit of cash institutions should be rated at least A1 by S&P or P1 by Moody's

3.4.3 No more than 10% of the portfolio value should be placed in any one stock, institution or fund

4. **Liquidity requirements**

4.1 Trustees maintain a separate cash reserve with the objective of this reserve being 6 months' worth of expenditure – i.e. around £3m.

4.2 Liquidity/income needs from the portfolio will be reviewed with the investment manager on a regular basis.

5. Time horizon

- 5.1 This is a long-term investment portfolio.
- 5.2 As part of its purpose is to support the Council, any change in funding requirements may alter the investment objective and income requirement.

6. Ethical investment

- 6.1 The Council assets should be invested in line with its aims.
- 6.2 The Council operates an ethical screening policy and wishes to avoid companies where over 10% of turnover comes from the sale or production of tobacco related products.

7. Management, reporting and monitoring

- 7.1 The investment manager’s performance will be reported on a quarterly basis (and shown against the agreed benchmark).
- 7.2 The Council has responsibility for agreeing strategy and monitoring the investment assets.
- 7.3 Discussions with the designated investment officer will take place at least six times each year (with other contact and discussion as required).
- 7.4 Performance will be monitored against agreed market benchmarks, and against the investment objective of inflation plus 4% over the long term.
- 7.5 The assets will be held in the charity nominee arrangements of the appointed investment manager.

8. Approval and review

- 8.1 This Investment Policy Statement was prepared by the Trustees to provide a framework for the management of its investment assets.
- 8.2 It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Trustees at the Council meeting on	29 July 2015
Signed for and on behalf of the Trustees by	
Dated	

Investment policy statement glossary

1. **Accessible Reserves:** those reserves that are readily realisable within a 'relatively short' time horizon. Typically this would exclude property and similar investments.
2. **Wide Powers of Investment:** this refers to powers of investment granted to Trustees as defined in the Trustee Act 2000
3. **Real Value:** in this sense, it means the value after adjusting for the impact of inflation.
4. **Equities:** another term for shares.
5. **Fixed Income:** these are borrowings, such as government bonds (in the UK, these are also known as gilts), corporate borrowings (either investment grade or other).
6. **'Exclusionary Screening Policy':** this is a screening policy which would involve avoiding certain defined areas. It is sometimes also known as a negative screening policy.
7. **Risk:** in this context, risk tends to mean the variability of returns.
8. **Real Assets:** typically, these are assets providing a real return. Over the longer term, they tend to provide a better level of return, and have a good record of producing returns above the level of inflation but over the shorter term they can be volatile. Equities, property and certain alternatives are all classified as real assets.
9. **Volatility:** this definition can be substituted for risk and it would refer to the variability of returns.
10. **Diversification:** mixing assets with the aim of producing a better quality (smoother or less volatile) return
11. **Prohibited assets:** the definitions here cover investments perceived to be carrying a significantly higher level of risk than is available from more traditional asset classes. I have stopped short of providing details or explaining the different structures but would be happy to do so.
12. **Index:** In the context of this table, the indices listed are all included to provide a comparator as to how the different sections within the fund might be performing.
13. **Liabilities:** in the context of the IPS document, liabilities means the charity's or Council's committed expenditure
14. **Investment Grade:** fixed income investments are categorised according to the risk of default (missing either interest or capital repayments) One of the major divisions, is between those that are deemed appropriate for investment (investment grade) and those that fall below this threshold. Investment Grade

debt is generally of a better quality and therefore carries a lower speculative element.

15. **A1 by S&P or P1 by Moodys:** this refers to the specific credit ratings for cash held. S&P and Moodys are both rating agencies. Specific definitions can be provided if required.
16. **Ethical Screening:** this is an investment review policy to manage exposure to areas which conflict with the charity's aims and objectives.
17. **Benchmark:** in investment markets, investment managers are required to show performance of a fund relative to a measure or benchmark. This can take different forms. At Brewin Dolphin we favour composite benchmarks which are structured of a weighted index of widely recognised market indices. This tends to create a challenging liquid benchmark which is highly visible. Other alternatives can be put forward and particularly peer group benchmarks or benchmarks relative to inflation.