



# *Investment Policy*

## **PURPOSE**

The Investment Policy determines how ICAEW manages its long-term investments and short-term cash funds. It specifies the means by which performance of these funds is monitored, the attitude to risk and time horizon and the management processes adopted.

The Investment Committee oversees the implementation and operation of the investment policy. The investment policy is agreed and approved by ICAEW's Board.

The Investment Committee is established as a committee reporting to ICAEW's Board and providing guidance on investment matters. It operates under delegated authority to oversee ICAEW's long-term investment portfolio and short-term liquidity structure.

There are no specific aspects of ICAEW's bye-laws which impact the investment policy or the actions of the Investment Committee.

## **INVESTMENTS BY ICAEW**

ICAEW has developed resources over time which are available for investment. These resources comprise a long-term portfolio which is designed to deliver growth and returns over a number of years and a short-term cash fund which manages ICAEW's working capital needs within a financial year.

Management of the long-term portfolio has been delegated to authorised investment managers. Cash funds are managed by ICAEW. ICAEW does not employ third party investment advisors.

## **INVESTMENT COMMITTEE ROLE**

### **Terms of reference**

- To define the ICAEW investment policy and consider appropriate investment risk profile and portfolio structure based on risk appetite defined by ICAEW's Board
- To monitor ICAEW's investment performance, to assess the appropriateness of the investment strategy and recommend changes to the Board as appropriate
- To ensure that the investments of the ICAEW are held and managed in accordance with agreed policy and in accordance with legislation and good practice
- To give clear written instructions to the professional investment advisers and / or managers on ICAEW's investment policy and to set targets for investment returns, acceptable volatility and benchmarks
- To monitor the performance of the portfolios managed by the investment advisers and / or managers and discuss their performance
- To consider and agree the fees associated with the investment portfolio

- To undertake selection processes of investment advisers and / or managers for new appointment or reappointment when required and make recommendations to the Board
- To propose options for timely actions to mitigate risk to satisfactory financial performance
- To report to the Board on an annual basis on the investment performance of ICAEW

The Investment Committee does not have responsibility for the assets of ICAEW's Staff Pensions Fund but will take into account the strategy of the Fund and its implications for ICAEW resource needs when determining the ICAEW investment strategy as well as the cash needs of the deficit funding plan. It will receive information on the pension funding position and asset strategy from time to time in order to perform this review.

### **Role in overseeing investments**

The Investment Committee exercises its role and supports the Board and management through the following actions:

- At least annually review the investment policy and recommend any changes
- Monitor the quarterly and annual performance of the investment managers against agreed benchmarks and investment objectives
- Fix the remuneration of the investment managers and any other appointed investment advisers
- Annually have the investment managers present to the investment committee on their performance and processes
- To monitor progress towards achievement of investment returns over the long term as defined in this policy
- From time to time review the long-term performance of the investment managers and if appropriate, undertake a formal process to determine whether to recommend that an alternative investment manager would be preferred in the role
- Where appropriate, approve the criteria for qualifying banks and other institutions to hold the ICAEW's short-term cash deposits (this does not include normal business banking requirements)

The Investment Committee will report to the ICAEW Board annually. This report will include commentary on the work of the Committee, asset allocation strategy, performance, risk profile and consistency with long term investment objectives and updates to this investment policy.

The Investment Committee will define periodic reports to be provided to the Board on investment performance. It will receive insight from the Board and on ICAEW strategic matters and resource needs through the membership of the Chief Operating Officer and the Finance Director in the Committee.

## **INVESTMENT STRATEGY**

### **Defining the strategy**

The Investment Committee will recommend to the ICAEW Board the investment and risk strategies for the portfolio including consideration of the appropriate level of risk for each portfolio. In doing so it will seek guidance from the Board as to considerations of its risk appetite and attitude and any constraints in investments. It will also seek information on potential asset needs.

The Reserves Policy approved by Council requires:

- Reserves should be set at a level equivalent to between three and six months of expenditure through the income statement
- Cash and investment balances should at least be sufficient to cover between three and six months of annual budgeted/forecast gross cash expenditure (currently £25-30m a quarter)

Investments should be sufficiently liquid to meet the above reserves policy.

The constitution of the portfolio is shown appendix 1.

## **LONG-TERM PORTFOLIO**

### **Investment Objectives**

- Preserve ICAEW reserves in real terms
- Deliver a total return to the income statement in line with the investment objective
- Managed in line with the reserves policy agreed by Council

The investment objective is to generate a total (capital and income) return of at least inflation (CPI) plus 2 % over the long term, after expenses. This will allow the ICAEW to at least maintain the value of assets whilst contributing significant income. The balance of income and capital return within this total will be reviewed periodically with the investment managers and assessed against ICAEW income requirements.

Investment performance will be benchmarked against the ARC sterling balanced index. Other measures used to compare performance will be:

- MSCI World Index
- FTSE All-Share Index

### **Time Horizon**

The long-term portfolio has a medium to long term time horizon (3 - 5 years) though may at times be called upon to fund large capital expenditure. Any such calls should be communicated to investment managers as early as possible in order to allow an orderly sale process.

### **Attitude to Risk**

The Investment Committee will work with ICAEW to define a risk appetite for the investment portfolio. The portfolios have been defined as balanced objective with lower risk outlook.

ICAEW is prepared to accept short-term volatility in the capital values and total returns of the funds in order to obtain long-term growth and returns. The degree of volatility and losses tolerated in the portfolio will be agreed with the manager from time to time.

### **Assets**

The Investment Committee are charged with agreeing a suitable asset allocation strategy with the investment managers which is set to achieve the investment objectives of the portfolio. The asset allocation strategy will give investment managers a degree of flexibility in managing the mix of assets in order to deliver the long-term strategy, such as bands of expected proportions of assets in each asset class.

The long-term portfolio assets can be invested widely and should be diversified by asset class and by security. Assets classes could include cash, bonds, equities, property, commodities and other asset classes deemed suitable by the investment manager, in UK and international markets.

### **Liquidity Requirements**

ICAEW has set its investment strategy having taken account of its liquidity requirements.

A short-term cash fund portfolio is used to meet ICAEW's operational cash needs. The cash fund uses a variety of term deposits and accounts to invest cash for the short term with rapid access to funds. This recognises the heavy weighting of income towards the December to March period annually and the subsequent drawdown of these funds.

There are no short-term liquidity requirements for the long-term portfolio.

## **PORTFOLIO MANAGEMENT**

### **Responsibility**

ICAEW has delegated the management of day-to-day decisions in the long-term investment portfolios to investment managers, duly authorised and regulated by the Financial Conduct Authority. ICAEW management receive regular reports from these managers and will meet with them on a frequent basis through the year to review performance and report to the Investment Committee and Board as defined in the Investment Committee terms of reference.

It is the view of the Investment Committee that it is desirable to appoint multiple fund managers.

The Investment Committee will meet each manager at least annually.

ICAEW exercises operational management of its cash funds, investing and withdrawing them from selected funds as required for operational purposes.

The Finance Director shall be responsible for the operational relationships with investment managers and cash fund providers.

### **Currency and Credit**

The base currency of the ICAEW is Sterling and hence the portfolio is transacted and managed accordingly. Investments may be made and exposures accepted by the Investment Managers in non-Sterling assets – they have the discretion to decide if hedging is appropriate consistent with investment objectives. A proportion of funds may be expected to be held in non-UK assets in accordance with the diversification and asset allocation expected by the Investment Committee.

### **Dividends and Interest**

Dividends and interest are accumulated in the portfolio unless otherwise agreed with the investment managers.

## **Reporting and Monitoring**

The Investment Committee will review the performance of each investment manager at least annually and will seek whatever information it sees fit in order to carry out this assessment.

The investment managers will provide the following fund and performance related information

**Monthly:** valuation of investments, transaction report, cash reconciliation.

**Quarterly:** fees and expenses, performance analysis including benchmark comparisons, volatility analysis and commentary.

Higher level aspects of these reports will be shared with the investment committee and considered as part of their regular assessment of investment manager performance.

## **Custody and control of investments**

The investment managers will arrange safe custody of assets either within their own businesses or with a suitable third party. The managers will provide regular reports on the safe custody of these investments and also on the sufficiency of internal controls and systems to prevent or detect material errors or irregularities. The Committee will review these reports annually.

## **Voting rights**

ICAEW has delegated the exercise of voting rights to the investment managers, who will exercise them in accordance with their written guidelines. ICAEW expect that these voting rights will be exercised with the objective of preserving and enhancing shareholder value. ICAEW and the investment committee will review and discuss the guidelines with the investment managers from time to time.

## **Social, environmental, ethical and governance direction**

The investment managers may take social, environmental, ethical and governance factors into consideration when selecting investments for purchase, retention or sale and will provide written guidelines outlining their enactment of these aspects of decision-making. The investment managers have delegated authority to act accordingly, subject to any specific requirements noted in appendix 2. ICAEW and the investment committee will review and discuss the guidelines with the investment managers from time to time.

Managers should be signed up to the UN Principles of Responsible Investment and are encouraged to be signed to the Stewardship Code.

## **Authorised Signatures**

Authorised signatures to instruct the investment managers are defined in the ICAEW Delegated Authorities policy, approved by the Board

## **Triggers for manager review**

Investment manager appointments will be formally reviewed by the committee upon any of the following events:

- Change in ownership of the manager
- Change in fund manager
- Adverse performance vs benchmark over a 3-year period

ICAEW's contract policy requires regular re-tenders of supplier contracts. Given the long-term nature of financial investment this cycle is less appropriate. In the absence of any trigger events described above and in accordance with good practice, the Investment Committee should consider whether it is suitable to seek a tender of the investment portfolio management at least every seven years.

## **POLICY REVIEW AND APPROVAL**

This Investment Policy was recommended by the ICAEW Investment Committee and approved by the ICAEW Board on the dates shown below to provide a framework for the management of investment assets and cash. The policy will be reviewed annually by the Investment Committee to ensure it remains appropriate.

Version 1.0

Investment Committee review: October 2019

Board approval: October 2019

Next review date: October 2020

Policies and other items affecting or dependent upon this policy: Delegated authority, contracts, Board priorities, operational plan.

## APPENDIX 1

Components of investment portfolio January 2019

### Long term portfolio

	<b>Rathbones (A)</b>	<b>Rathbones (B, ex-Jupiter)</b>
Nature of investment	Direct and pooled funds	Pooled funds
Objective	Balanced	Income
Risk profile	Lower	Lower
Benchmarks tracked	ARC Sterling Balanced, MSCI WMA Balanced	ARC Sterling Balanced

### Cash funds

All funds invested with Royal London (other than normal current account balances).

<b>Fund</b>	<b>Objective</b>	<b>Usage</b>
Investment Grade Short Dated Credit Fund	ICE BofA ML 1.5 year Sterling Non-Gilt All-Stocks Index + 0.25%	Medium term liquidity
Enhanced Cash Plus Fund	Capital growth and income in excess of SONIA over 12 months	Second tier cash drawdowns
Short Term Money Market Fund	SONIA over 12 months	Short-term cash drawdowns

## **APPENDIX 2**

### **Specific instructions to investment managers**

#### **Social, environmental, ethical and governance direction**

Investment managers shall not make direct investments in any entity which is regulated by ICAEW. We only invest with those fund managers that are signatories to the UN Principles of Responsible Investment and/or the FRC's Stewardship Code.