



Subject Investment Strategy & Appointment of the Investment Broker
Purpose For Decision
From Marc Stoner, Head of Finance and Resources

If you have any enquiries on this paper, please contact Marc Stoner at marcs@arb.org.uk or on 020 7580 5861

1. Summary

Under the Scheme of Decision Making, the Board are required to set the strategy for its invested funds.

ARB's Investment Broker is James Malcolmson of Quilter Cheviot who will be in attendance at the November Board meeting. It is vital that the Investment Broker gains an understanding of the Board's attitude to risk in order to base his recommendation on the way forward for ARB's invested funds.

ARB's Investment Broker will provide the Board with a report on the overall performance of the portfolio, current market conditions, impact of any Bank of England interest rate rise and any recommendations for diversification of the current portfolio based on the Boards current appetite to risk, which is currently medium, and short and long term cash requirements. However, some background information is provided below.

2. Recommendations

It is recommended that:

- i. No change be made to the Boards current attitude to risk and the strategy should remain as:
 1. Protect the real value of capital
 2. Any growth within the capital should be with lower risk
 3. Maintain required liquidity
- ii. Appoint Quilter Cheviot for a further 12 months

3. Open

4. Contribution to the Board's Purpose and Objectives

In delivering the Act, ARB's objectives are:

Protect the users and potential users of architects' services
Support architects through regulation.

To manage the organisation's finances prudently whilst delivering ARB's statutory requirements and objectives.

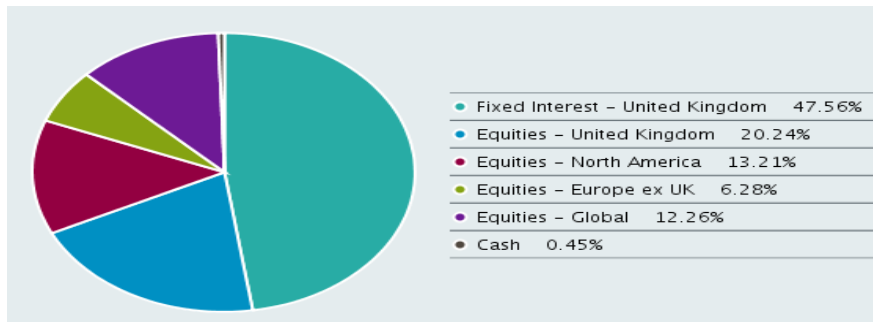
5. Background

- i. The Board, at its November 2017 meeting amended its Investment Strategy by changing its risk profile from 'Lower' to 'Lower to Medium'. This in turn increased its exposure in equities from up to 25% to up to 50% and the suggested investment period increased from 1 year or more to 3 years or more.

Due to the lease review of Weymouth Street, the full 50% equity exposure didn't occur until February 2018 in case access to the funds were required for any potential office move.

- ii. The current value of the assets placed with Quilter as of 9 November 2018 was £6,719,352. The closure fund of approximately £3.7m is deemed as funds that can be invested in equities. This is a longer term reserve which can tolerate the risk and volatility that equities have, resulting in an opportunity of better long term capital appreciation.

- iii. These assets are split as follows:



- iv. The overall yield on the portfolio is around 1.79% (9/11/18). The Investment Broker will provide the Board with latest overall yield at the Board meeting. This is bought down by placing funds not required within 6-8 months with Quilter. Please see vii below.
- v. All fees charged by Quilter Cheviot are in line with the agreed fee structure. The total fees for 2018 are estimated at £21k (£16,260 actual to date).
- vi. Dividends received to date total £85k, with a further £21k anticipated by the year end.
- vii. Over all, the Executive are satisfied with the performance of Quilter as the Board's Investment Broker. There have been no concerns in the day to day operations and funds have been accessible, as required, for cash flow purposes. All funds have been invested in line with the Brokers recommendations and no concerns have been raised by the Broker in relation to any of the Boards investments.
- viii. ARB currently invests funds that are not required for around 6 – 8 months. However, from 2019, funds required within one year will be transferred to one of the additional bank accounts recently established, increasing the diversification of all of ARB funds. The new accounts have been established with HSBC and Nationwide. ARBs main bank account will remain in operation with NatWest.

6. Resource implications

If the Board decides to change its current investment strategy, this may mean that funds need to be sold in order to meet the Boards revised requirements. There will of course be transaction fees associated with any change as well as any impact on the value of such funds being sold. To mitigate any impact on the value overall of the funds, the Broker can time some sales around cash flow requirements.

7. Risk Implications

There is obviously risk in any form of investment but an element of risk should be considered by the Board in order to achieve a return beyond what could be achieved by simply holding cash.

It is important that the Board gives a clear direction to the Broker as to its attitude to risk; the suitability of the different type of investments available; and its capacity for loss.

Given the Board buys in its investment expertise, it should be guided by the advice of the Broker, unless it feels it has a valid reason not to do so and requires further advice.

8. Communication

ARB is committed to seeking cost-saving initiatives to help ensure value for money balanced with prudent management of ARB's financial resources contribute towards maximising cost savings.

9. Equality and Diversity Implications

None currently identified.

10. Further Actions

Crowe LLP will be providing support and guidance on tendering of the Investment Broker during 2019.

The Board, early in the new year will be asked to consider establishing a target return rate for the Investment Broker to achieve. Given ARBs lower/medium risk appetite it is important that this isn't set too high but sufficient to cover all costs associated with management of the funds. Current thinking is to use CPI plus 1% - as an example this would be 3.4% return.