



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

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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. Attached at **Annex A** is Mr Malcolmson's report on the overall performance of ARB's investment portfolio; the Board's current appetite to risk is currently Lower to Medium and **Annex B** provides additional information on the investment profile at this risk level. Some further background information is provided below.

It is important 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. However, we are in the process of tendering for the Investment Management service and aiming to award a contract for Board approval in January 2020. The current Investment Broker will continue until a new contract has been awarded, whether to the current firm, or to a new supplier. With this in mind, it is suggested that no amendments to the investment strategy are made until a decision is taken on the appointment of an Investment Broker.

The Boards current strategy is to:

- i. Protect the real value of capital**
- ii. Any asset allocation should be a maximum of 50% equity exposure through funds**
- iii. Maintain required liquidity**

As of 27 November 2019, the current of the portfolio is around £6.6m with an estimated yield on the portfolio of around 1.67%.

2. Recommendations

It is recommended that:

- 1** No change be made to the Boards current attitude to risk and the strategy

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

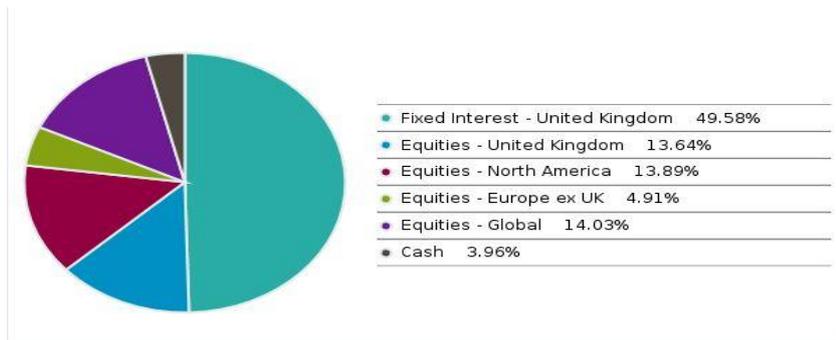
Support architects through regulation.

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

5. Background

- i. In November 2017, the Board 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.
- ii. In November 2018, the Board agreed that it would remain with its 'Lower to Medium' attitude to risk based on a three to five year time horizon, but noted that some market volatility may need to be tolerated. The Board's decision was caveated with the request that the Registrar, Head of Finance & Resources and the Board's Investment Broker should meet to consider any changes needed to its investment strategy, to help mitigate against any major market volatility.
- iii. In December 2018, the Board was provided with a further update that the Broker had reduced ARB's exposure to equities to de-risk the portfolio, following the uncertainty around Brexit and the debate of 'no confidence' in the Prime Minister. The Board was also advised that the Broker would de-risk the portfolio further with the exposure to equities reduced from 50% to 40% with immediate effect due to the current political climate.
- iv. Historically, ARB invested funds that were not required for around 6 – 8 months. However, from 2019, funds required within one year were transferred to one of ARB's two bank accounts. This was to increase the diversification of all of ARB funds. The new accounts were established with HSBC and Nationwide, although ARB's main bank account remains in operation with NatWest.
- v. **Current Assets**
The current value of the assets placed with Quilter as of 27 November 2019 was £6.6m. 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.

- vi. These assets are split as follows:



- vii. The Quilter Cheviot management charges are in line with the agreed fee structure. The total management fees for 2019 are estimated at £21k (£15k actual to date).
- viii. Dividends and interest received to date total £85k, with a further £10k anticipated by the year end.
- ix. **Overview of Broker's performance**
Overall, the Executive are satisfied with the performance of Quilter as the Board's Investment Broker. All funds have been invested in line with the Broker's recommendations and no concerns have been raised by the Broker in relation to any of the Boards investments.
- x. Notwithstanding the above and following a recommendation from our internal auditors, a tender exercise for the independent investment management service is currently ongoing, with interviews for potential providers scheduled for mid-December 2019. A further update on this will be brought to the January 2020 Board meeting.

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

The Board, early in the new year will be asked to formally appoint an Investment Manager. Discussions can then take place as to the Boards attitude to risk and if any changes are required to the existing investment strategy.