

## Investment policy statement

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## 1. Statement

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1.1 This policy applies to the long term investment by external advisors<sup>1</sup> of the proceeds from the sale of 41 Harley Street.

## 2. Investment powers

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2.1 The trustees have the wide powers of investment outlined in the Trustee Act 2000.

2.2 This also includes the power to delegate responsibilities to an investment manager.

2.3 The charity's governing document is the Opticians Act 1989 (as amended 2005).

## 3. Investment objectives

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3.1 The broad objective of the investment funds is to provide income and capital appreciation which, when taken together with the registration income can provide sufficient money every year to enable the GOC to meet its statutory remit.

3.2 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.

3.3 The income objective is to earn an attractive level of income from the invested portfolio which has the ability to grow over time.

3.4 The trustees wish to adopt an exclusionary screening policy.

## 4. Glossary of terms

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4.1 **A1 by S&P or P1 by Moodys:** specific credit ratings for cash held. S&P and Moodys are both rating agencies.

4.2 **Accessible reserves:** those reserves that are readily realisable within a 'relatively short' time horizon. Typically this excludes property and similar investments.

4.3 **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. Brewin Dolphin favour composite benchmarks which are structured of a weighted index of widely recognised market indices.

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<sup>1</sup> As of March 2015, this is undertaken by Brewin Dolphin

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

- 4.4 **Diversification:** mixing assets with the aim of producing a better quality (smoother or less volatile) return.
- 4.5 **Equities:** another term for shares.
- 4.6 **Ethical screening:** this is an investment review policy to manage exposure to areas which conflict with the charity's aims and objectives.
- 4.7 **Exclusionary screening policy:** a screening policy involving avoiding certain defined areas. Sometimes also known as a negative screening policy.
- 4.8 **Fixed income:** borrowings, such as government bonds (in the UK, gilts), corporate borrowings (either investment grade or other).
- 4.9 **Index:** included to provide a comparator as to how the different sections within the fund might be performing.
- 4.10 **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 deemed appropriate for investment (investment grade) and those that fall below this threshold.
- 4.11 **Liabilities:** the charity's or Council's committed expenditure.
- 4.12 **Prohibited assets:** investments perceived to be carrying a significantly higher level of risk than is available from more traditional asset classes.
- 4.13 **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.
- 4.14 **Real value:** the value after adjusting for the impact of inflation.
- 4.15 **Risk:** the variability of returns.
- 4.16 **Trustees:** as defined in the Trustee Act 2000. Members of the GOC's Council.

4.17 **Volatility:** this definition can be substituted for risk and refers to the variability of returns.

4.18 **Wide powers of investment:** powers granted to Brewin Dolphin.

## 5. Risk

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### Attitude to risk

5.1 The trustees rely on investments to help fund activities. The key risk to the long term sustainability of the GOC is inflation, and the assets should be invested to mitigate this longer-term impact.

5.2 The trustees understand this is likely to mean investment will have an emphasis in real assets and that the capital value may fluctuate.

5.3 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 and working capital or, if necessary, the liquidation of capital assets.

5.4 The trustees consider their appetite for risk on investing activities is moderate.

### Assets

5.5 The GOC's assets can be invested widely and should be diversified by asset class, by manager and by security.

5.6 The portfolio may be invested in fixed interest, UK and overseas equities, property, private equity and any other asset that is deemed suitable.

5.7 The following asset types are prohibited:

- purchasing securities on margin;
- futures/commodity contracts;
- short sales;
- leveraged derivative securities;
- speculative derivatives; and
- other complex financial instruments.

5.8 The investment manager is instructed to invest the funds with a “Moderate Risk” classification (Brewin Dolphin Risk Category 6) with the following benchmark allocations and investment ranges.

<b>Asset</b>	<b>Benchmark %</b>	<b>Ranges %</b>
UK Gilts	12.5%	5-15
Corporate Bonds	7.5%	5-25
UK Equities	40%	25-55
Overseas equities	27.5%	15-35
Property	2.5%	0-10
Alternatives	5%	0-20
Cash	5%	0-20

### **Currency risk**

5.9 The majority of the GOC's liabilities are in sterling.

5.10 The majority of the portfolio should be maintained in sterling assets. Where other currency assets are included, the investment manager should consider currency issues.

5.11 Investment may be made in non-sterling assets, but should not exceed 40 per cent of the total investment portfolio value.

### **Credit/counterparty exposure risk**

5.12 A minimum of 70 per cent of the fixed interest investments should be of investment grade.

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

5.14 No more than 10 per cent of the portfolio value should be placed in any one stock, institution or fund.

## **6. Liquidity requirements**

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6.1 The trustees wish to maintain a separate working capital reserve with the objective of this reserve being a minimum of two months' worth of expenditure i.e. around £1m.

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

## **7. Time horizon**

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7.1 This is a long-term investment portfolio.

7.2 As part of its purpose is to support the GOC, any change in funding requirements may alter the investment objective and income requirement.

## **8. Ethical investment**

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8.1 The GOC's assets should be invested in line with its statutory remit.

8.2 The GOC operates an ethical screening policy and wishes to avoid direct investment in companies where a significant proportion of its turnover or profit comes from the sale or production of tobacco related products as sight loss can be directly attributable to smoking.

## **9. Delegation of Authority**

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9.1 The Director of Resources is appointed as the designated investment officer with the authority to act as liaison between the GOC and the appointed investment manager.

## **10. Management, reporting and monitoring**

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10.1 The portfolio's performance will be reported through the S.O.F.A. on a quarterly basis, and commented upon in the financial performance summary.

10.2 Meetings between the designated investment officer and the investment manager will take place at least four times each year (with other contact and discussion as required).

10.3 Performance will be monitored against agreed market benchmarks, and against the investment objective of 5.5 per cent return over the long term.

10.4 The assets will be held in the charity nominee arrangements of the appointed investment manager.

## **11. Approval and review**

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11.1 It will be reviewed on an annual basis to ensure continuing appropriateness.