

Investment principles and Investment strategy 2020

Purpose of paper	This paper sets out the proposed Investment Principles and Investment Strategy 2020 for Council approval.
Status	Public
Action	For decision
Corporate Strategy 2016-19	Objective 2: Manage, the GDC's finances effectively, maintaining sufficient reserves to ensure resources are available to manage our statutory functions
Business Plan 2018	Not applicable
Decision Trail	<p>The Council last approved the Investment Principles and Investment Strategy in December 2018.</p> <p>The Finance and Performance Committee reviewed the proposed Investment Principles and Investment Strategy 2020 at their November 2019 meeting and recommended it be submitted to Council for approval.</p>
Next stage	Not applicable.
Recommendations	<p>The Council is asked to:</p> <ul style="list-style-type: none"> • Consider the Investment Principles and Investment Strategy 2020 • Approve the Investment Principles and Investment Strategy 2020
Authorship of paper and further information	<p>Samantha Bache – Head of Finance and Procurement sbache@gdc-uk.org 0121 752 0049</p> <p>Gurvinder Soomal – Executive Director, Registration and Corporate Resources gsoomal@gdc-uk.org 020 7167 6333</p>
Appendices	Appendix 1: GDC Investment Principles

Executive Summary

1. As a result of accumulated and projected surpluses, the GDC's business model is such that it is projected to have cash funds of between £29.1m and £51.9m in 2020 (the variation is due to seasonal differences in income receipts and expenditure patterns).
2. At present, funds held in the bank current account or on short term bank deposit earn less than 0.5% per annum, while the September 2019 CPI was 1.7%. Whilst the capital element is reasonably secure (assuming a stable UK banking sector), the purchasing power of cash will shrink year on year.
3. At their December 2017 meeting, Council approved the investment of up to £15m of available cash in instruments other than cash deposits, creating the opportunity to achieve investment returns greater than currently available from bank deposits (after deducting fees), whilst not exposing any capital to excess risk.
4. There has been no further investment and no divestment of the portfolio during 2019. Since 2018, the portfolio has grown by £2.6m in unrealised gains and our investment portfolio was valued at the 30 September 2019 at £17.6m.
5. We have discussed with our investment advisor the current uncertainty around Brexit, the General Election and the ongoing impeachment narrative in the US. As a result of that discussion we feel it prudent to retain our current capital investment level (£15m) and defer any decision on increasing capital investment until there is greater clarity on the likely impact on markets.
6. The investment strategy requires that minimum cash balance of the order of £5.0m will be maintained. On this basis and following a review of the currently approved investment principles as set out in Appendix 1, no changes to either the investment strategy or the investment principles are recommended.
7. Council are asked to consider and approve the Investment Principles and Investment Strategy 2020.

Introduction and Background

8. In December 2010, with the assistance of the GDC's investment advisor we developed an investment strategy that takes account of the GDC's statutory role as regulator, its accountability to Parliament, and, as a result, its need to invest prudently, avoiding unnecessary risks.
9. In 2012, £12m was invested from available cash balances in a mix of equities and fixed interest securities. In addition, the GDC's holdings in five investment trusts (with a value at 31 December 2011 of £579,000) were also transferred to our managed investment portfolio.
10. In 2014, GDC liquidated £6.1m of investments held in order to boost cash balances over the last six months of 2014, largely to fund the redevelopment cost of the GDC's premises at 37 Wimpole Street. Following receipt of annual retention fees in December 2014, the £6.1m was reinvested in January 2015.
11. In 2015, a further £11.5m was divested resulting in a net £5.4m reduction in the value of the GDC's investments in the year. At 31 December 2015, the value of investments held in equity funds was £3.5m.
12. In 2016, it was necessary to liquidate the majority of our investments to ensure that the stated policy minimum of £5.0m was maintained in cash funds. The investment manager was instructed to divest the majority of the portfolio during August and September 2016 in an orderly fashion. The net sale proceeds totalled £3.0m, leaving £0.8m of its portfolio invested, mainly in unit trusts that have been held for a number of years.

13. In December 2017, Council approved the investment of up to £15m of available cash in instruments other than cash deposits. The split between UK equities, overseas equities and UK fixed interest was developed with support from our investment advisor and funds were invested throughout 2018.

14. The following table summarises the returns achieved since the 2018 re-investment of £15m:

	Investment 2018 £000	Investments as at 31 Oct 2018 £000	Investments as at 30 Sept 2019 £000
Equities, including unit trust valued in Dec 2011 at £579k	10,000	10,465	11,983
Fixed interest	5,000	4,277	5,262
Cash*		1,043	356
Total	15,000	15,785	17,601

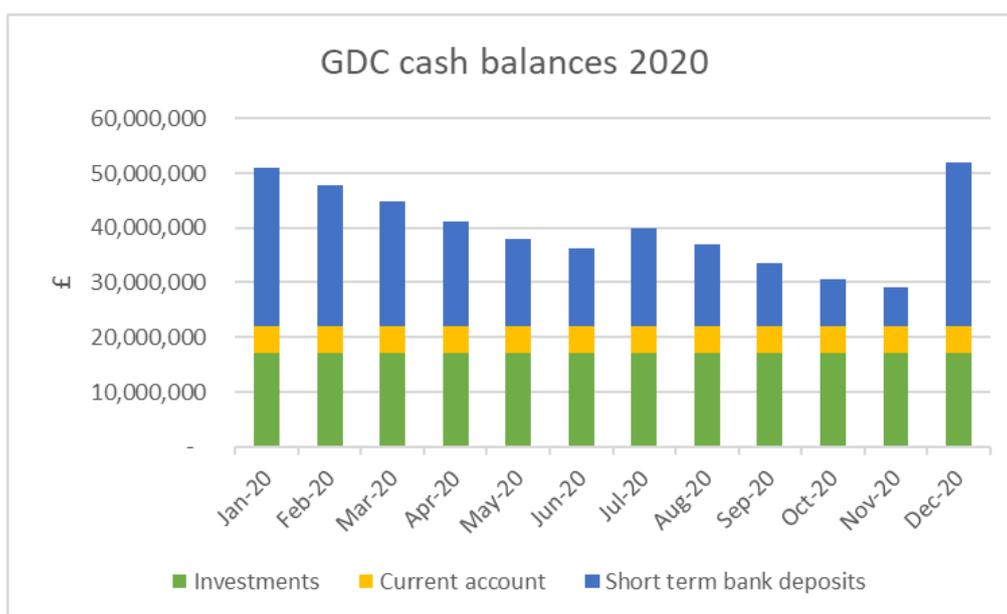
*cash sum that remains in both the equity and fixed interest accounts to be invested at the appropriate time

Cashflow projections and proposed investment profile

15. The value of cash to be included in an investment strategy should be linked to projected cash balances. The investment profile that has been adopted and to which no changes are proposed, is based on the **minimum** level of projected cash balances.
16. Other short-term cash balances will be managed by the Finance team through the use of short term (up to 3-month bank deposits) at two UK clearing banks.
17. The justification for investing a proportion of available cash in instruments other than cash deposits is the opportunity to achieve investment returns greater than currently available from bank deposits after deducting fees, whilst not exposing any capital to excess risk. The objective here is to seek to achieve returns that mitigate the shrinking buying power of cash as a result of an increase in the rate of inflation. Investment advisors will seek to achieve this through investing in “real assets” (equities, property, commodities etc).
18. In relation to the particular risk around Brexit, our investment advisors have already taken steps to de-risk the portfolio and have been gradually reducing the UK exposure over the last few years so the overseas investment currently represents over 40% of the total portfolio. Of the UK listed equities held, they are predominately overseas earners rather than domestically focused companies which are at greater risk from a hard Brexit scenario.
19. A suggested profile, based on the 2020 cashflow forecast as at September 2019, is as follows:

	Seasonal minimum level of projected cash [Oct/Nov]	Seasonal maximum level of projected cash [Dec]
Finance team managed: <ul style="list-style-type: none"> • Current account cash <ul style="list-style-type: none"> - Lloyds - NatWest • Short term bank deposits 	£3m £2m £7m	£3m £2m £30m
Smith & Williamson managed: A mix of UK equities, overseas equities and UK fixed interest securities	£17.0m	
GDC total funds available	£29.0m	£52.0m

20. Under the proposed investment strategy, projected cash balances can be analysed as follows:



Ethical investment strategy

21. In line with our current investment principles, we have a specialist investment to avoid any conflict of interest in relation to oral health and the healthcare sector. Our agreed strategy restricts any direct investment in a company with sales in tobacco and alcohol, or any direct investment in healthcare providers.
22. Our investment advisors have confirmed that they actively consider the United Nations Principles for Responsible Investment when investing on our behalf.

Recommendation

23. Council are asked to consider and approve the Investment Principles and Investment Strategy 2020.

Appendix 1

GDC Investment Principles

Introduction

1. This statement of Investment Principles is aimed at providing a guide to how the Investment Strategy is implemented.

Investment Principles

2. The GDC will aim to achieve an investment risk profile that seeks to achieve returns broadly in line with inflation.
3. Reserves would potentially be available for investment for 5 years duration, but the ability to liquidate some investments at short notice should be maintained.
4. The GDC would always retain ultimate decision-making powers in relation to investments, however day to day decision making powers could be delegated to the Investment Manager on terms to be agreed.
5. The GDC has an established ethical policy to exclude alcohol and tobacco owing to their impact on oral health and the healthcare sector which could be seen as a conflict of interest. Ethical restrictions have been agreed with the Investment Manager and consequently there are no direct investments permitted in companies with more than 5% turnover derived from the production of alcohol, production of tobacco or healthcare provision.
6. Custody of investment documents [share certificates etc] – will be agreed between the GDC and the Investment Manager, however where they are held by the Investment Manager they will be in the name of a Nominee company.
7. All investments would be realisable within 7 working days, apart from short term bank deposits that may be unavailable for up to 3 months.
8. Short term funds will be deposited with banks as approved from time to time by the GDC.