

## Solicitors Regulation Authority Limited – Investment Policy

Date of Investment Policy Statement: 27 June 2023

### 1. Introduction

- 1.1. Solicitors Regulation Authority Limited (SRA) is a private company limited by guarantee. The SRA is the regulator of solicitors in England and Wales.
- 1.2. We have annual income of c.£80m with an equivalent level of annual expenditure.
- 1.3. This policy statement concerns working capital, medium term reserves held in cash and long-term reserves available for investment. These are summarised below.

What	Accessibility	Held as	Managed by
Working capital	In year as required in line with cashflow forecast	Cash – term deposits available in line with cashflow forecast	Externally managed service overseen by Executive Director of Resources and Director of Finance and Procurement
Medium-term reserves (cash buffer)	As needed – available for unplanned immediate calls on reserves	Cash deposits including money market accounts – accessible within two months (or shorter subject to interest penalties).	Finance Department - overseen by Executive Director of Resources and Director of Finance and Procurement
Long-term reserves (investments)	At least 7-year time horizon	Investments – no requirement for liquid holdings	Investment Management

- 1.4. Our Reserve Policy is to hold £15.7m to £22.5m<sup>1</sup> as reserves to ensure continued financial security and to provide for contingencies.
- 1.5. We have approximately £17.4m of uncommitted reserves (at 30 April 2023). A proportion of reserves (between 5% and 15%) should be held in cash deposits with the remainder available for investment.
- 1.6. Working capital is at its highest in November each year following the collection of practising fee income, reducing gradually throughout the financial year.
- 1.7. Our financial objective is to at least maintain the real value of the reserves through a combination of investments which generate a return in excess of inflation and cash holdings where risk is kept to a minimum.
- 1.8. Our Board is responsible for investment decisions. Investment management is delegated to an authorised professional investment manager, currently Cazenove Capital.

### 2. Investment objective

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<sup>1</sup> Reserves policy last updated June 2023

- 2.1. We seek to at least maintain the capital value of reserves within an acceptable level of risk.
- 2.2. Our investment objective for the long-term reserves is to generate a return in excess of inflation over the long term. The long-term target for returns is inflation (as measured by the Consumer Prices Index) plus 3% net of any management fees.
- 2.3. Our investment objective for the medium-term cash reserves and working capital is to minimise risk and obtain the best available returns within those risk constraints.
- 2.4. Working capital should be readily available to meet known cash flow requirements as they fall due throughout the year.

### **3. Risk**

- 3.1. We are reliant on practising fee income for its activities. Investment assets are held as reserves and not to supplement running costs.
- 3.2. The key risk to our long-term reserves is inflation, and the assets should be invested to mitigate this risk over the long term. The Board understands that this is likely to mean that investment will be concentrated in real assets and that the capital value will fluctuate.
- 3.3. The Board is able to tolerate volatility of the capital value of our financial investment portfolio, as we are able to meet its short-term operational activities and financial commitments through working capital.
- 3.4. Our assets can be invested widely and should be diversified by asset class, and by security. Asset classes could include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for us.
- 3.5. The Board is charged with agreeing a suitable risk profile for the invested reserves with the investment manager.
- 3.6. Short and medium-term cash deposits should be managed across at least two counterparties, with no more than 60% per institution (with the exception of UK government deposits).

### **4. Liquidity requirements**

- 4.1. The long term invested reserves are not expected to be required at short notice and as such there is no specific requirement for short term capital liquidity within the investment portfolio.
- 4.2. As part of a balanced portfolio however, it is expected that some asset classes will be relatively liquid.
- 4.3. A proportion of our reserves (between 5%-15%) are to be held in cash deposits mitigating the risk of any call on the invested reserves in the event of a short-term unforeseen cash requirement.
- 4.4. We will draw down the working capital cash deposits in line with the planned expenditure schedule. Maturities of cash deposits should therefore match this timetable.

### **5. Time Horizon**

- 5.1. We expect to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.

- 5.2. We have divided our reserves into those that can be held for a long-term time horizon (at least seven years) and those that should be liquid in the shorter term.
- 5.3. Working capital should be realisable in line with the planned expenditure schedule.

## **6. Ethical Investment Policy**

- 6.1. Our assets should be invested in line with its role as a public service regulator. Individual investments may be excluded if perceived to conflict with our role. These would include, but are not limited to, direct investment in listed law firms and organisations with which we have a significant third-party relationship. A list of organisations (or types of organisations) will be provided annually.
- 6.2. In addition, we will seek to invest in a broad ethical/sustainable portfolio within our current risk appetite.

## **7. Management, Reporting and Monitoring**

- 7.1. We have appointed an investment management firm to manage the long-term assets on a discretionary basis in line with this policy. The investment manager is required to produce a valuation and performance report quarterly. We have nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.
- 7.2. The Board has responsibility for agreeing strategy and monitoring the investment assets. The Board will receive a quarterly update on the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against the investment objective of inflation plus 3% over the long term. The investment manager is required to present to the Board on at least an annual basis and by request on an exceptional basis.
- 7.3. Working capital will be an externally managed service within the parameters established by this policy and overseen by the Executive Director of Resources. This may be the same investment management firm that is managing the long-term assets. Working capital funds may be held with counterparties with a credit rating no less than A3 (Moody's), A- (S&P) or A- (Fitch) with the exception of call monies (including overnight) which should be in line with the investment manager's policy.
- 7.4. Medium-term cash reserves will be managed by the Finance department, overseen by the Executive Director of Resources.
- 7.5. The return on these cash reserves and working capital will be monitored against the Bank of England's SONIA interest rate benchmark.
- 7.6. The Board will review the performance of the Investment manager on an annual basis and will consider retendering for an investment manager after three years. The Board may decide to delay retendering for up to two years. The maximum term without retendering for an investment manager is therefore five years.

## **8. Approval and Review**

8.1. This Investment Policy Statement was prepared by the Director of Finance and Procurement on behalf of the Board of the SRA to provide a framework for the management of its investment assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the SRA Board on

Date

27 June 2023