

SRA BOARD

27 June 2023

CLASSIFICATION – PUBLIC*This paper will be published***Investment Update**

Reason for paper	This paper provides the Board with an update on investments as at the end of May 2023 as well as updated reserves and investment policies.
Decisions(s)	The Board is asked to: <ul style="list-style-type: none"> (a) note the update on investments (b) approve the updated reserves policy (annex 1) and investment policy (annex 2).
Previous Board and committee consideration	The policies were previously approved by the Board in June 2022 and require annual review.
Next steps	Cazenove will report to the Board on an annual basis and updates on investment performance are provide to the Board as part of the regular performance updates.

If you have any questions about this paper please contact: Liz Rosser, Executive Director of Resources, Liz.Rosser@sra.org.uk, 07775 591184

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Investment Update

Summary

- 1 This paper reports on the reserves and investment policies of the SRA and the investment of funds with Cazenove as our appointed investment manager.

Background

- 2 Solicitors Regulation Authority Limited was established as a separate legal entity in May 2020 and the operational activity undertaken by the SRA as part of the Law Society was transferred to the new company on 1 June 2021.
- 3 This change gave us control over our own reserves and investments which had not previously been the case, necessitating new reserves and investment policies. These were developed between senior management and a board working group in late 2021 and approved by the Board in December 2021.

Discussion

- 4 In the formal transfer of assets and liabilities from the Law Society, the SRA received £9m in investments held and managed by Cazenove Capital. The Board agreed that we would continue to use Cazenove Capital as our investment manager for the reserves and working capital of the SRA and the Compensation Fund. As reported to the Board earlier in the month, the value of this portfolio remains at around the £9m level.
- 5 The Board has previously discussed its approach towards investments and in particular environmental, social and governance (ESG) issues around investments. As part of those discussions it was agreed that the reserves of the SRA and the Compensation Fund would be invested in a sustainable portfolio with Cazenove which the Board agreed better reflected its approach.
- 6 In previous discussions regarding Cazenove's approach, the Board considered that there was more emphasis on governance and less on environmental and social issues.
- 7 Cazenove has been asked to provide an update on investment performance including further information on its approach to ESG, and detail on this is included in its presentation at annex 3.
- 8 2022/23 is the first year that Cazenove has managed our working capital for the full financial year. At the end of April 2023 this amounted to around £46m held in a mixture of instant access accounts, short term deposit accounts and treasury bills, allowing us to maximise returns while ensuring sufficient access to cash at all times to meet forecasted cash flow requirements.
- 9 The reserves and investment policies have been considered internally and no substantive changes are considered necessary. The policies are updated for minor changes such as dates and job titles to ensure they remain up to date.

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10 Areas the Board might wish to focus on in the discussion with Cazenove include:

- its approach to environmental and social issues
- its view on the long term performance of a sustainable portfolio
- its view on the stability in the markets following the instability created by the war in Ukraine and historically high inflation
- the medium to long term expectations for growth against our target of inflation plus 3%.
- its expectation for returns on working capital and how this could be improved.

Recommendations: the Board is asked to:

(a) note the update on investments

(b) approve the updated reserves policy and investment policy.

Next steps

11 The revised reserves and investment policies will be published.

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Supporting information

Links to the Corporate Strategy and/or Business Plan and impact on strategic and mid-tier risks

- 12 The reserves and investment policies contribute to the financial strength and security of Solicitors Regulation Authority Limited. Access to financial reserves allows the SRA to deliver the activities within the annual business plan and the overall Corporate Strategy, confident that any unexpected financial shocks can be managed effectively.

How the issues support the regulatory objectives and best regulatory practice

- 13 As discussed above, ensuring financial security allows the SRA to regulate effectively.

Public/Consumer impact

- 14 Robust investment and reserves policy provide confidence to the public and consumers in the long-term stability of the SRA. Maintaining a suitable level of reserves ensure that the SRA is able to regulate effectively even in the face of unplanned and unexpected financial pressures.

What engagement approach has been used to inform the work and what further communication and engagement is needed?

- 15 The reserves and investment policies will be published.

What equality and diversity considerations relate to this issue?

- 16 There are no specific equality and diversity considerations related to the approval of these policies.

How the work will be evaluated

- 17 The performance of the investments will be considered by the Board on a regular basis through the performance reporting. The performance of the investment manager will be evaluated annually and retendered every three to five years.

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Date 16 June 2023

Annexes

Annex 1 – SRA Reserves Policy June 2023

Annex 2 – SRA Investment Policy June 2023

Annex 3 – Cazenove presentation

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NB: annex 3 will not be published because it includes legal or other professional advice on sensitive or confidential matters.