



To: Council
From: Matthew Redford
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Review of investments

Classification Public

Purpose For decision

Issue The General Osteopathic Council (GOsC) holds two investments. One being the investment portfolio with the second being a 120-bond investment.

This paper reviews both investments.

Recommendations

1. To agree to leave the Brewin Dolphin investment portfolio unchanged and to continue to review the investment annually.
2. To withdraw from the 120-day bond held with Secure Trust Bank.
3. To agree to receive a recommendation electronically before the November 2019 meeting, outlining where to invest the funds withdrawn from Secure Trust Bank.

Financial and resourcing implications These are set out in the paper.

Equality and diversity implications None

Communications implications None

Annex Extract from Brewin Dolphin client reports: Monthly performance comparison against MSC WMA benchmark.

Introduction

1. The General Osteopathic Council (GOsC) holds two investments which at the year-end, 31 March 2019, totalled £1,156,664. These investments are separate from the main GOsC bank account.
2. The investments held by the GOsC are:

Investment	Narrative	Valuation as at 31 March 2019 £
Medium risk diversified portfolio	Managed by Brewin Dolphin	571,845
120-day bond	With Secure Trust Bank	584,819

3. Following the February 2019 Council meeting, the Director of Registration and Resources was asked to bring a paper back to Council providing further information on the investments, their performance and any associated charges.
4. Each investment is discussed in turn below, with a brief history of the investment approach set out for Council’s reference.

Discussion

Medium risk diversified portfolio

5. The GOsC has held an invested portfolio since 2011, when £500,000 was invested with Newton Asset Management, before the portfolio was taken over by Standard Life Wealth. In 2011, Council agreed an investment strategy which was based on a number of key principles against which Council has since reaffirmed its commitment. The investment principles are:
 - a. Good financial stewardship aims to increase the asset value above inflation;
 - b. The investment profile of the GOsC was to be at the lower end of medium risk across a five-year period;
 - c. The portfolio needed to be diverse to spread the risk of fund fluctuation;
 - d. The investment should be made via a fund route rather than a segregated portfolio;
 - e. No significant capital additions or withdrawals were anticipated;
 - f. The funds could be liquated quickly if required;
 - g. That Council should review the investment strategy on a regular basis.

6. At the five-year review in 2016, Council was advised that as the principles remained a fair reflection of its appetite to risk, the need to protect the value of the asset remained the main priority. Therefore, any changes to the portfolio were unlikely to result in the value of the asset being significantly enhanced. Council agreed with this position and noted it would need to manage its future expectations accordingly when it considered the value of the asset.
7. At that five-year review, Council concluded that it wished to move away from Standard Life Wealth to a new investment manager who would protect the value of the asset; who would provide a more proactive management of the investment portfolio and who would engage with the GOsC and with Council to provide a greater degree of assurance about the investment portfolio.
8. Council delegated the final decision to the Executive and it was advised in November 2016 that Brewin Dolphin had been selected as the preferred investment management firm. Within that decision-making framework was a consideration of charges levied on the portfolio by the investment firm, which in total were less than the GOsC was incurring with Standard Life Wealth.
9. The transfer to Brewin Dolphin was completed in 2017 with the investment manager, Steve Oliver, and the financial advisor Simon McGeachie, Fairstone Financial Management, attending Council annually. The attendance at Council in 2018 was the first time Council had the opportunity to actively engage with its investment manager since the portfolio was established in 2011.
10. Council held a detailed conversation with the investment management team which covered investment risk and the need to balance caution with return; income yield; the re-investment of gross income back into the investment portfolio and how quickly the portfolio could be liquidated if required. At the end of the discussion, the Chair on behalf of Council, thanked the investment team for their detailed account of the management of the GOsC investment.
11. Bringing the background discussion up to date, in February 2019, Council again met with the investment management team. The investment valuation was taken as at 31 December 2018 which was unfortunate timing as the market had suffered a very poor final quarter which was predicated on fears about the pace and scale of US interest rate rises, as measured by the yield on 10-year US Treasuries.
12. It was anticipated that US interest rates would not rise above 3% as anything higher would have the potential to restrict growth. When rates spiked at 3.25%, (end September 2018), investors reappraised returns from their own investments, which triggered a sell-off of global equity and bond markets, taking them into negative territory for the year.
13. In the final quarter of the year, ending 31 December 2018, the FTSE100 had fallen by 11%, the S&P500 by 14% and Emerging Markets by 20%.

14. In the opening quarter of 2019 markets made a strong recovery, the best start for investors for almost 30 years, which saw the declines suffered in 2018 reversed. The investment portfolio totalled £572k at our financial year end.
15. The GOsC annual report and accounts, 31 March 2019, provide a disclosure connected to investments, including the charges incurred each year. The disclosure for 2018-19 has been set out below to inform Council about the charges incurred through holding the investment portfolio.

Investments

	2019
	£
At the start of the year	551,021
Income reinvested	11,538
Fees taken	(6,451)
Gain/(loss)	15,737
Total portfolio	571,845

16. Brewin Dolphin client reports compare the GOsC portfolio against its Morgan Stanley Capital (MSC) Wealth Management Association (WMA) benchmark.
17. Brewin advise that the benchmark is a guide to how the portfolio has done as it does not have any costs and assumes the perfect reinvestment of income. The benchmark used for comparative purposes is the MSC WMA Private Investor Income Index which is comprised of:

Asset class	MSC WMA Private Investor Income
International Equities	25.0%
UK Equities	27.5%
Government Bonds	5.0%
Corporate Bonds	17.5%
Inflation-linked Bonds	2.5%
Cash	5.0%
Real Estate	5.0%
Alternatives	12.5%

18. Attached at the annex is an extract from the client reports since July 2017 which show the performance of the fund against the benchmark.
19. The Executive suggests that the Brewin Dolphin portfolio is meeting the investment principles which Council have adopted, notably the desire to maintain the value of the asset.

20. While there might be options for Council to change the investment manager, the investment company or to withdraw funds from the investment portfolio either in part or in full, Council has previously stated that the investment should be considered over a long-term period and that it would manage its expectations for the growth of the fund against its agreed investment principles.
21. We have been invested with Brewin Dolphin for two years. It is recommended at this stage that no change is made to the investment, but that Council continues to monitor the performance of the investment over time.
22. It is recommended that the next review takes place 12-months on from this paper in July 2020.

120-day bond

23. The GOsC has held a 120-day bond since late 2011 when it invested £500,000 with Secure Trust Bank. When opened the bond earned 3.01% AER; however, over the last eight years, the interest rate on the bond has been gradually reduced and now stands at 1.24% AER.
24. A review of www.moneyfacts.co.uk has indicated that bonds of up to two years might generate a higher return between 2% and 2.40%, although clearly there would need to be due diligence undertaken on whether to invest in some of the bonds which offer higher returns.
25. Withdrawing the funds from Secure Trust Bank would take 120-days as per the nature of the bond, during which time further work could be carried out to identify where to reinvest the funds.
26. The GOsC does not incur any charges for running this account and there would be no charge incurred for withdrawing the funds.
27. It is recommended that Council provides delegated authority to the Director of Registration and Resources to serve notice to Secure Trust Bank and to explore alternative bond options, with a recommendation sent to Council electronically as a decision will be required before the November 2019 meeting.

Recommendations

1. To agree to leave the Brewin Dolphin investment portfolio unchanged and to continue to review the investment annually.
2. To withdraw from the 120-day bond held with Secure Trust Bank.
3. To agree to receive a recommendation electronically before the November 2019 meeting, outlining where to invest the funds withdrawn from Secure Trust Bank.

Annex: Extract from Brewin Dolphin Client Reports: monthly performance breakdown

Name	31.07.17	31.08.17	30.09.17	31.10.17	30.11.17	31.12.17	31.01.18	28.02.18	31.03.18
GOsC	-0.25	0.95	-0.61	2.30	-0.24	1.04	-0.50	-1.84	-1.87
MSC WMA	-0.10	1.75	-1.36	1.69	-0.43	2.53	-0.85	-1.55	-1.28

Name	30.04.18	31.05.18	30.06.18	31.07.18	31.08.18	30.09.18	31.10.18	30.11.18	31.12.18
GOsC	3.20	1.88	0.09	1.19	0.34	-0.29	-4.20	-0.24	-3.81
MSC WMA	2.76	2.09	-0.16	1.50	-0.26	-0.15	-3.08	-0.68	-2.92

Name	31.01.19	28.02.19	31.03.19	30.04.19	31.05.19
GOsC	3.97	1.43	1.65	2.36	-1.01
MSC WMA	3.36	1.18	2.53	1.64	-1.05

