

**SRA BOARD**  
7 December 2021

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*This paper will be published*

**SRA Reserves and Investment update (including policies for approval)**

**Purpose**

- 1 This paper provides the Board with an update on the work of the Reserves and Investment Working Group and includes the proposed Reserves policies and Investment policies for the SRA and the Compensation Fund for approval.

**Recommendations**

- 2 The Board is asked to:
  - a) note the work of the working group
  - b) agree to invest £27M from the Compensation Fund reserves into a balanced sustainable portfolio
  - c) agree to the approach towards ethical investments
  - d) agree the approach to working capital for the SRA and Compensation Fund, approving Cazenove to undertake this role
  - e) approve the SRA Reserves policy
  - f) approve the SRA Investment policy
  - g) approve the Compensation Fund Reserves policy
  - h) approve the Compensation Fund Investment policy.

**If you have any questions about this paper please contact:**  
**Liz Rosser, Executive Director of Resources, [liz.rosser@sra.org.uk](mailto:liz.rosser@sra.org.uk)**

**Equality, Diversity and Inclusion considerations**

- 3 The working group has been very mindful of Equality, Diversity and Inclusion considerations as it has developed its recommended approach to investments. This can be seen, for example, in our proposed approach to ethical investments in paragraph 10-13.

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**Background**

- 4 The establishment of Solicitors Regulation Authority Limited requires that we have a reserves policy and investment policy. As a charity we would be required to have these policies in place and we have also committed to share our reserves policy with the Legal Services Board as part of their oversight role.
- 5 As part of separation from the Law Society the Solicitors Regulation Authority Limited received a portion of the Law Society Group investments, currently managed by Cazenove Capital. The Board agreed its risk appetite and the risk profile of those investments earlier in July 2020. This decision is not being revisited at the current time.

**Summary**

- 6 Over recent months a working group including the Chair of the Board, Chair of Audit and Risk Committee, other Board members, the Chief Executive and Executive Director of Resources has discussed the approach to investments and working capital management for both SRA and the Compensation Fund.
- 7 The working group has considered the reserves of the Compensation Fund as well as those of the SRA, and considered the portfolio (including an approach to ethical investment) as well as an approach to working capital management, all with a view to secure a favourable return within the appropriate risk constraints. This has led to development of four policies which are recommended to the Board by the working group for approval.

**Working capital management**

- 8 The working group discussed the need to ensure that we make the best possible use of our financial resources throughout the year, recognising that we collect the majority of our funding in October and November and spend it across the year.
- 9 The working group recommends that the working capital is managed by our investment managers overseen by the Executive Director of Resources and Director of Finance and Business Planning. This recommendation applies to the SRA and Compensation Fund and is reflected in the respective investment policies. This recommendation is based on the need to spread risk across more than one counterparty and to ensure a reasonable return on the funds that we hold throughout the majority of the financial year but are not able to invest for the longer term. Allowing these to be managed by our external investment manager provides a more cost effective solution than managing this in-house.

**Environmental, Social and Governance considerations**

- 10 The working group has had several discussions on environmental, social and governance (ESG) considerations in respect of our approach to investments. Cazenove Capital also presented to the group on their approach to

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sustainability and also their ESG and Stewardship Policy, a summary of the Cazenove's approach to sustainability is included as annex 1. ESG covers a wide range of considerations and the Board may wish to consider further discussions with Cazenove on this when they present to the Board on the portfolio in the future.

- 11 As part of this much wider discussion, the working group discussed the approach towards ethical investments for the SRA. Firstly, in terms of exclusions, there are some individual investments which could be perceived to conflict with the SRA's role including, for example, direct investment in law firms and organisations with which the SRA has a significant third-party relationship. These are addressed through the policy.
- 12 In terms of wider ethical investments, the issue was discussed further with Cazenove Capital. Cazenove explained that it is possible to go further than their standard approach to ESG which covers all of their investments, by choosing to invest ethically (a broad portfolio which tends to avoid fossil fuels, alcohol, pornography, armaments, tobacco, gambling and high interest rate lending as much as possible). An ethical portfolio would, based on past performance, in the long term have resulted in returns no lower than from a portfolio that did not make these exclusions, but in likelihood the ethical approach would have greater short term variability. The working group discussed this and agreed that this was an appropriate choice for the SRA, a more ethical approach with no expected long term impact on returns. This broad ethical approach was considered to be in the interests of the SRA, our stakeholders and our position as a not for profit/potential charity. It was a general ethical approach rather than a specific approach avoiding certain types of investments based on individual's personal values. Additional information from Cazenove is included at annex 2.
- 13 The Board is asked to agree that the SRA investments are moved into a more sustainable fund with Cazenove. There are no significant transaction costs involved in making this change.

**SRA Reserves Policy**

- 14 The reserves policy (annex 3) describes the process by which we will identify a reasonable level of reserves for SRA Limited. This follows a similar process as that discussed with the Board previously.
- 15 The policy identifies an acceptable range of between £15.7m and £22.5m, which equates to between three and five months' expenditure. Reserves are expected to be below this level at the end of the financial year and the Board will be asked to consider this when setting the 2022/23 funding requirement. The policy will be reviewed and approved by the Board annually.
- 16 Attached at annex 4 are further details on the composition of these figures. The reserves policy will be published.

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### **SRA Investment Policy**

- 17 The investment policy (annex 5) outlines the management of working capital, medium and long term cash reserves. The long term reserves are represented by investments transferred from the Law Society as part of the establishment of SRA Limited.
- 18 Currently we have investments of c.£9.3m following the establishment of Solicitors Regulation Authority Limited. Additional funds may be invested depending on the outcome of the 2020/21 financial year. The Board will be asked to approve this at a later date if necessary.
- 19 In approving the policy the Board is approving the recommendation to allow Cazenove Capital to manage working capital funds on behalf of the SRA, overseen by the Executive Director of Resources.

### **Compensation Fund Reserves Policy**

- 20 This policy (annex 6) formalises the process that is undertaken annually to assess the appropriate level of reserves in the Fund. This level takes account of past and expected activity in the Fund. The policy also considers the contribution level principles that were agreed by the Board in 2020.
- 21 Rather than a range of reserves, the Compensation Fund has a minimum reserve level which is considered alongside other factors when setting the annual contribution level. The volatility of the Fund was discussed and considered by the working group as the reserves policy was finalised.
- 22 The policy will be reviewed and approved by the Board annually.

### **Compensation Fund Investment Policy**

- 23 The working group discussed the need to ensure that the significant reserves that are held in the Compensation Fund are managed appropriately to preserve the future value of the reserves. The Fund continues to hold significant reserves and is expected to do so for several years and therefore it was considered appropriate to invest these funds, allowing for a greater return and preventing the real value of the fund being depleted due to low interest rates.
- 24 The current level of reserves is significantly above the minimum acceptable level outlined within the reserves policy. The minimum level is not a target and represents the lowest level we would be comfortable maintaining in the Fund.
- 25 This policy (annex 7) outlines how reserves and working capital of the Fund will be managed to make the money work harder, benefitting the Fund and in the longer term potentially reducing the burden on those paying contributions to the Fund.

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- 26 In approving the policy, the Board is approving a new investment portfolio being created for the Compensation Fund. This can be done almost immediately following Board approval. It is proposed that this be invested in a sustainable portfolio in line with the recommendation in paragraph 13.
- 27 The initial investment will be no more than the minimum reserve level identified within the Compensation Fund Reserves policy. This will be reviewed annually as part of the contribution setting process. The inherent volatility of the Fund was considered in reaching this decision, along with the expected level of reserves in the Fund during this financial year and the next.
- 28 Additionally, in approving the policy, the Board is approving Cazenove Capital to manage working capital funds on behalf of the SRA, overseen by the Executive Director of Resources.

**Supporting documents**

- 29 The working group considered that it would be useful to have a short summary document explaining the rationale for our approach to investments and the principles adopted. This could be published alongside the investment and reserve policies. A draft for consideration is at annex 8.
- 30 At the meeting in September 2021, the Board asked for the executive to summarise the approach for when it might be appropriate to draw on the SRA's reserves. This has been agreed by the working group and can be found at annex 9 for consideration.

**Recommendations: the Board is asked to:**

- a) **note the work of the working group**
- b) **agree to invest £27M from the Compensation Fund reserves into a balanced portfolio**
- c) **agree to the approach towards ethical investments**
- d) **agree the approach to working capital for the SRA and Compensation Fund, approving Cazenove to undertake this role**
- e) **approve the SRA Reserves policy**
- f) **approve the SRA Investment policy**
- g) **approve the Compensation Fund Reserves policy**
- h) **approve the Compensation Fund Investment policy.**

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**Next Steps**

- 31 If approved the policies will be implemented with immediate effect. Arrangements will be made to allow Cazenove Capital to manage the working capital of SRA Limited and the Compensation Fund and investments will be made on behalf of the Compensation Fund.
- 32 The SRA Limited Reserves Policy will be shared with the Legal Services Board and the Audit Committee of the Law Society.

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### **Supporting information**

#### **Previous Board consideration**

- 33 The Board previously discussed the investment portfolio as part of the establishment of Solicitors Regulation Authority and agreed the approach to risk within the portfolio in July 2020. The Board agreed to establish a working group to consider the reserves and investment policies.

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

- 34 The reserves and investment policies contribute to the financial strength and security of SRA 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**

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

#### **Public/Consumer impact**

- 36 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**

- 37 The reserves and investment policies will be published.

#### **What equality and diversity considerations relate to this issue?**

- 38 The working group has been very mindful of Equality, Diversity and Inclusion considerations as it has developed its recommended approach to investments. This can be seen, for example, in the proposed approach to ethical investments.

#### **How the work will be evaluated**

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

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**Annexes**

- Annex 1 Cazenove investment approach**
- Annex 2 Cazenove Sustainable Growth Fund**
- Annex 3 SRA Reserves Policy**
- Annex 4 SRA Reserves requirement**
- Annex 5 SRA Investment Policy**
- Annex 6 Compensation Fund Reserves Policy**
- Annex 7 Compensation Fund Investments Policy**
- Annex 8 Approach to investments**
- Annex 9 Approach to drawing on reserves**

*NB: the annexes to this paper will not be published with the set of Board papers as they relate to emerging policy. Annexes 3,5,6,7 and 8 will be published in early 2022.*