

**SRA BOARD**

7 June 2022

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

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| <b>Reason for paper</b>                           | This paper provides the Board with an update on investments as at the end of April 2022 and an updated reserves policy and investment policy. The previously approved versions assumed that the Solicitors Regulation Authority Limited would operate as a charity and this is no longer the case. |
| <b>Decisions(s)</b>                               | The Board is asked to note the update on investments and approve the updated reserves policy (annex 1) and investment policy (annex 2).  |
| <b>Previous Board and committee consideration</b> | The Board approved these policies in December 2021.  |
| <b>Next steps</b>                                 | The policies will be reviewed annually.  |

**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), 07775 591184**

## SRA BOARD

7 June 2022

CLASSIFICATION – PUBLIC



### 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.
- 4 At this time the SRA was expecting to operate as a charity and the reserves policy in particular was developed with this in mind, paying particular attention to the Charity Commission guidelines on reserves while also being mindful of the guidance issued by the Legal Services Board on reserves held by approved regulators and independent regulatory bodies.
- 5 Following the decision earlier this year that the SRA would no longer proceed with an application to become a charity, the policies have been amended to remove the reference to charity with no substantive change to the policies themselves.

#### Discussion

- 6 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.
- 7 The reserves of the Compensation Fund had previously been held in cash accounts. The Board agreed to invest the minimum reserve figure identified in the Compensation Fund reserves policy in a balanced sustainable portfolio to protect the real value of the fund in the longer term.
- 8 Following this agreement, and in line with the investment policy Cazenove began managing these funds earlier this year. Alex Bolland from Cazenove Capital will present to the Board discussing the management of the investments and drawing attention to the key issues (his presentation, including some detailed contextual information, is attached at annex 4 if Board members wish to consider it in advance).

## SRA BOARD

7 June 2022

### CLASSIFICATION – PUBLIC



- 9 The Board discussed its approach towards investments and in particular environmental, social and governance 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.
- 10 In considering Cazenove's approach, the Board considered that there was more emphasis on governance and less on environmental and social issues. Cazenove has been asked to provide more detail on this as part of this discussion.
- 11 The Board also agreed a statement on its approach to investments which will be publicly available on our website. This is included at annex 3 for reference.
- 12 Areas the Board might wish to focus on in the discussion with Cazenove include:
  - their approach to environmental and social issues
  - given the fast pace of geopolitical change, particularly in the last few months, what should the impact be on our investment strategy and the balance and composition of our portfolio
  - their strategy in moving towards the two sustainable portfolios
  - their response to the current uncertainty in the markets in response to the war in Ukraine
  - the medium to long term expectations for growth against our target of inflation plus 3%.

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

**(a) note the update on investments**

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

#### **Next steps**

- 13 The revised reserves and investment policies and the investment statement at annex 3 will be published.

## SRA BOARD

7 June 2022

CLASSIFICATION – PUBLIC



### Supporting information

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

- 14 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

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

#### Public/Consumer impact

- 16 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?

- 17 The reserves and investment policies will be published.

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

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

#### How the work will be evaluated

- 19 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.

**Author** David Adams, Director of Finance and Business Planning  
**Contact Details** david.adams@sra.org.uk  
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#### Annexes

- Annex 1 – SRA Reserves Policy June 2022**
- Annex 2 – SRA Investment Policy June 2022**
- Annex 3 – SRA Approach to investments**
- Annex 4 – Cazenove presentation**

*NB: annex 4 will not be published because it includes legal or other professional advice on sensitive or confidential matters.*