

<b>Agenda item:</b>	<b>M7</b>
<b>Report title:</b>	<b>Report of the Investment Sub-Committee 2016</b>
<b>Report by:</b>	<b>Clare Rayner</b> , Governance Manager, Office of the Chair and Chief Executive, <a href="mailto:clare.rayner@gmc-uk.org">clare.rayner@gmc-uk.org</a> , 0161 240 8332
<b>Considered by:</b>	<b>Investment Sub-Committee</b>
<b>Action:</b>	<b>To consider</b>

## Executive summary

This report outlines the Investment Sub-Committee's work since its last report on 19 April 2016.

The Sub-Committee also uses its annual report to review its Statement of Purpose and has proposed amendments which it considers appropriate in relation to Sub-Committee membership and the establishment of GMC Services International on the work and responsibilities of the Investment Sub-Committee.

## Recommendations

Council is asked to:

- a** Consider the Report on the work of the Investment Sub-Committee since April 2016.
- b** Agree the proposed amendments to the Investment Sub-Committee Statement of Purpose.

## Report of the Investment Sub-Committee's activities in 2016

- 1 The Investment Sub-Committee is required by its Statement of Purpose to report annually to Council on its activities. Since its last report to Council on 19 April 2016, the Sub-Committee has met three times in June, September and November 2016. Additionally it held one teleconference in July 2016 to consider proposals from CCLA.
- 2 The Sub-Committee also considered one issue on email circulation between meetings, to approve proposed changes to its Statement of Purpose and to the Investment Policy relating to the establishment of a GMC trading subsidiary.

### *Membership*

- 3 The Investment Sub-Committee's membership includes four Council members, three external co-opted members, the Chief Operating Officer, the Director of Resources and Quality Assurance, and the Assistant Director of Finance and Procurement.
- 4 There have been several membership changes in 2016. Julian Lee demitted office as a Council member and Sub-Committee member in June 2016, at which time the Sub-Committee Chair agreed to leave the post vacant pending the finalisation of Council member appointments in December 2016. Enid Rowlands also demitted office as a Council member and Sub-Committee member on 31 December 2016. Newly appointed Council members Paul Knight and Anthony Harnden took up their appointments on 1 January 2017, and have joined the Investment Sub-Committee.
- 5 Keith Mackay and Jeremy Beckwith were appointed as external co-opted members in September 2016. Jeremy Beckwith resigned from the Investment Sub-Committee in January 2017 due to a conflict with a new role. The Investment Sub-Committee agreed that it was unnecessary to replace Jeremy at this juncture given that the Committee's Statement of Purpose allows for two or three external co-opted members and two external co-opted members remained on the Committee.

### *Placing GMC funds under management*

- 6 Following the appointment of CCLA as the GMC's investment fund manager in December 2015, the Sub-Committee conducted management agreement negotiations during 2016 for arrangements to place £10 million under CCLA's management. The Sub-Committee agreed that it was satisfied with the terms of the Investment Management Agreement at its meeting on 28 September 2016, after which funds were transferred to CCLA, in October 2016.
- 7 GMC funds are held in a combination of CCLA's COIF Charities Ethical Investment Fund and their COIF Charities Deposit Fund. Financial performance will be reported to Council through an additional annex to the Chief Operating Officer's Report which is currently under development.

### *Treasury management*

- 8** The Sub-Committee considers a report on the GMC's treasury management activities at each of its meetings.
- 9** The GMC's cash balance is expected to range between £60 and £90 million during the year. The cash held during the year is typically higher than the GMC's free reserves because a larger proportion of doctors pay their annual retention fee in advance. Fees paid in advance are held on the balance sheet as deferred income and not included in free reserves.
- 10** During 2016, the Sub-Committee noted that the GMC was holding the minimum possible with the Royal Bank of Scotland due to low rates of return, and had observed a typical increase in the number of doctors paying their Annual Retention Fee during the summer months which led to a temporary increase in cash holdings to levels that were higher than expected at other times of year.

### *Ongoing review of the Investment Policy*

- 11** The Sub-Committee considered the Investment Policy on email circulation in December 2016, and agreed to recommend to Council changes in relation to the Sub-Committee's potential responsibility for oversight of the GMC's investment in a trading subsidiary.
- 12** Council agreed the proposed changes to the Investment Policy at its meeting on 14 December 2016.

### *Other issues*

#### **Investment Risk-Register**

- 13** The Sub-Committee considered the Investment Risk Register at each of its meetings and agreed:
  - a** To add a new risk to Register to reflect market uncertainty due to the then unknown outcome of the EU Referendum on 23 June 2016.
  - b** To specify that the operational risk of the minor loss of capital funds was mitigated by the GMC's low-risk investment approach.
  - c** To specify that the operational/liquidity risk of not being able to access funds when required was unlikely in its inherent risk assessment.

### External periodic review/health-check of investment arrangements

- 14** The Sub-Committee's Statement of Purpose allows the Sub-Committee to engage external professional advisers to undertake a periodic review/health-check of the investment arrangements. As funds were not under management until October 2016, such a review has yet to be conducted. At its meeting in September 2016 the Sub-Committee agreed to conduct its first review in Quarter 1 of 2017, as after two years of work it was an appropriate time to conduct a review to make sure that the arrangements that were in place were fit for purpose.
- 15** The tender process to appoint an external reviewer is expected to be completed in the first quarter of 2017, with the outcome of the review expected in mid-2017.

### Performance management framework for monitoring fund managers

- 16** The Sub-Committee conducted its annual review of its performance management framework for monitoring fund managers, and has developed a one-page dashboard to give an overview of investment performance, which will be included as an additional annex to the Chief Operating Officer's Report to Council in due course.

### Review of Statement of Purpose

- 17** The Investment Sub-Committee is required to review its Statement of Purpose at least once a year and suggest any amendments considered necessary to Council.
- 18** The Statement of Purpose was last reviewed by the Sub-Committee at its meetings on 15 June 2016 and on email circulation in December 2016, and Council approved updates to the following points at its meetings on 29 September 2016 and 14 December 2016:
  - a** To change the number of external co-opted members of the Sub-Committee from 'two' to 'two or three', to allow some flexibility in membership in the future.
  - b** To add a new duty and responsibility in relation to the 'oversight of any funding provided to a trading subsidiary of the GMC on a financial, programme-related or mixed motive investment basis'.
- 19** At its meeting on 25 January 2016 the Committee considered whether to recommend further changes to its Statement of Purpose in relation to changes in membership and the Committee's role in relation to GMC Services International.
- 20** Following discussion at the meeting the Committee agreed that:
  - a** Given that the Chief Operating Officer had stood down from the Investment Sub-Committee following her appointment as a director of GMC Services International, the Investment Sub-Committee Statement of Purpose should be

amended to remove reference to the Chief Operating Officer in the membership. An alternative executive member was not deemed necessary at this juncture.

- b** It would be useful to have a member of the Sub-Committee with experience of working with charities with trading subsidiaries. In light of her relevant experience, it is proposed that Denise Platt should be invited to join the Investment Sub-Committee.
- c** It would be helpful to have clarification regarding its ongoing responsibility for monitoring the investment in GMC Services International (GMSCI). A seminar will be arranged to provide further clarity.

**21** A draft revised Statement of Purpose is at [Annex A](#) for approval.

## M7 – Report of the Investment Sub-Committee 2016

### M7 – Annex A

#### Statement of purpose of the Investment Sub-Committee

##### *Purpose*

- 1 The purpose of the Investment Sub-Committee is to provide a forum for implementing and reviewing Council's Investment Policy.
- 2 Council is ultimately responsible for determining and reviewing the overall Investment Policy, objectives, risk appetite and target returns. Operational decision-making and implementation of the policy is delegated to the Investment Sub-Committee.

##### *Duties and activities*

- 3 The Investment Sub-Committee:
  - a Ensures the management of the assets is consistent with the Investment Policy set by Council.
  - b Monitors the Investment Policy to ensure it remains appropriate, and to recommend changes to Council as appropriate.
  - c Implements changes to the Investment Policy as appropriate.
  - d Establishes and monitors the investment management structure to ensure that it is appropriate to meet the agreed Investment Policy. This includes decisions about the appointment of fund managers, the number of fund managers used, the proportion of assets managed by each manager, and their mandates.
  - e Agrees the terms of appointment of the investment fund managers, including their fee scales.
  - f Implements changes to the investment management structure as appropriate.
  - g Monitors the actual asset allocations chosen by the fund manager, to ensure that the allocation is consistent with the agreed Investment Policy. Where more than one fund manager is appointed, the Investment Sub-Committee will also monitor the aggregate asset allocation to ensure it provides sufficient diversification.

- h** Monitors the performance of each fund manager against agreed objectives by means of regular review of the investment results and other information.
- i** Monitors the corporate governance activities, policies and exercising of voting rights of the investment fund managers.
- j** Meets with the investment fund managers on a regular basis to discuss their performance, actions and future strategy.
- k** Has oversight of any funding provided to a trading arm of the GMC on a financial, programme-related or mixed motive investment basis.
- l** Monitors the continued stability of the investment fund managers against agreed objectives. Implementing changes to the investment mandates as necessary.
- m** Monitors and reacts to legislative, financial and economic changes affecting, or potentially affecting, investment policy. The Investment Sub-Committee may engage external professional advisers to undertake a periodic review/health-check of the investment arrangements.
- n** Review the investment policy so that it remains consistent with, and supportive to, Council's overall business plan, budget and reserves policy.

#### *Working arrangements*

- 4** The Investment Sub-Committee meets quarterly. Additional meetings may be scheduled if necessary.
- 5** Draft minutes should be cleared by the chair and circulated to members for comment within two weeks of the meeting. The Investment Sub-Committee approves the minutes at its next meeting.
- 6** Membership of the Investment Sub-Committee comprises:
  - a** ~~Five~~ ~~four~~ members of Council, one of whom will be appointed as Chair of the Investment Sub-Committee.
  - b** Two or three external, co-opted members, with extensive investment experience.
  - c** ~~The Chief Operating Officer~~ The Director of Resources and Quality Assurance and the Assistant Director, Finance and Procurement. Other staff may attend as necessary.
- 7** Fund managers who are appointed to manage investment funds on behalf of the GMC will be expected to attend Investment Sub-Committee meetings.

- 8** A summary of investment performance will be reported to Council as part of the normal reporting of financial performance within the Chief Operating Officer's report. In addition, the Investment Sub-Committee will report annually to Council on its activities.

*[This Statement of Purpose forms Annex B4g of the Governance Handbook. This version was approved by Council at its closed session on 14 December 2016]*