



Ark[®]
People
Housing
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Investment Management Practices

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Owner:	Stuart Green	Job Title:	Director of Finance
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Version Control

Date	Owner	Version	Reason for Change
July 2022	Stuart Green	1	New procedure

Summary of Changes

Section	Change
All	New procedure to formalise governance process for Ark's commercially held investments. Aligned to OSCR and SFHA Treasury Management guidance.



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1.0 Introduction

The purpose of this procedure is to set out Ark's Investment Management Practices ("IMPs"), ensuring that investment management activities of Ark are managed and controlled appropriately, and in a manner that complies with best practice, as set out in:

- the CIPFA Code of Practice for Treasury Management in the Public Services ("the Code");
- OSCR Guidance and Good Practice for Charity Investments; and
- in line with the expectations of the Scottish Housing Regulator ("SHR") as set out in the Standards of Governance and Financial Management.

2.0 Investment Management Definition

The CIPFA Code distinguishes between treasury management investments and commercial investments.

Treasury management investments are investments which arise from an organisation's cash flows or treasury risk management activity, and represent cash that can be invested until required in the course of business. For Ark, these will generally be limited to cash held on deposit, as described in procedure [F03a] Treasury Management Practices, section 2.4 (approved instruments, methods and techniques).

Commercial investments are investments made primarily for financial return and not linked to treasury management activity.

3.0 Scope of Investment Powers

The scope of Ark's Investment powers are set out in the rules of each entity within the Group, an extract of which is noted below. Ark's Treasury Management Policy [F03], section 7.2 (commercial investments), and this procedure, set out the detailed requirements to ensure these powers are met in relation to commercial investments.

Ark Housing Association

The Association's funds may be invested by the Board of Management in such manner as is permitted by its Investment Policy, subject always to the requirement that the Association will comply with the Regulatory Framework and Regulatory Guidance issued by The Scottish Housing Regulator from time to time.

Ark Services Limited

The Company has power to do anything which is calculated to further its Objects or is conducive or incidental to doing so.

Ark Commercial Investment Limited

Subject to the articles, the directors are responsible for the management of the company's business, for which purpose they may exercise all the powers of the company.

4.0 Investment Management Practices (“IMPs”)

4.1 Investment Aims

Ark's primary objective for investing is to achieve a long-term total return ahead of UK inflation (as measured by the Consumer Price Index (“CPI”)), primarily from capital growth, but also through the generation of income, which is to be reinvested.

The investment portfolio aims to produce the best financial return within an acceptable level of risk.

At a currently undetermined point in the future, Ark may seek to divest from its commercial investments, to enable the organisation to meet future charitable and strategic objectives.

4.2 Investment Objectives

Ark understands that in order to mitigate inflation risk in the long-term, the underlying investments will include assets such as equities which may be volatile in the short-term. Given the ability to take a long-term view, Ark is comfortable accepting a reasonable degree of short-term capital volatility in the value of the assets in order to generate better returns over the long-term.

The assets can be invested widely and should be diversified by asset class, geographical spread, unit and investment trust manager, sector, and security. The assets may be invested directly or via collective investment vehicles in each asset class, as deemed appropriate through time.

4.3 Investment Managers

Ark's investment assets will be managed by external investment managers, with appropriate skills and experience. Investment management services should be procured in line with Ark's Procurement policy [F02].

4.4 Time Horizon

Ark is expected to exist in perpetuity and the investments should be managed to meet the investment objectives and ensure their sustainability over the long-term. Ark's Executive Team, as part of the annual reforecasting of the long-term organisational finances, should consider the overall reserves and funding sources of the organisation, as well as short and medium-term spending plans.

4.5 Responsible Investment (“ESG”)

Ark has adopted a policy of responsible investment. This is investment incorporating environmental, social and governance (“ESG”) factors into investment decisions.

The Group’s assets will be invested in line with its aims. The Group does not wish to adopt an exclusionary policy but individual investments may be excluded if perceived to be in conflict with the Group’s purpose.

In agreeing any investment strategy the officers and Board of Management will demonstrate that they have acted with care and diligence to ensure the assets invested are aligned with the charitable objectives of the organisation.

Decisions to exclude specific sectors or stock should be advised to the investment manager.

4.6 Investment Policy Statement

An ‘Investment Policy Statement’ should be reviewed and approved by the Board of Management and Ark’s investment manager on an annual basis. This provides a framework for the management of the investment assets, ensuring it continues to be appropriate to the requirements of the organisation.

4.7 Investment Risk Appetite

Investment risk appetite should be reaffirmed by Ark’s Board of Management on an annual basis (as part of the Investment Policy Statement). This should be done in liaison with Ark’s appointed investment manager, taking into consideration Ark’s investment horizon, value of funds invested, and investment objectives. Changes to investment risk categories should be approved by the Board of Management.

The ten levels of investment risk (as set out by Ark’s current investment manager, Brewin Dolphin), is noted at appendix 1.

4.8 Funds Available for Investment

Funds available for investment will be identified as part of Ark’s Treasury Management Strategy (“TMS”) and five-year financial plan.

When deciding to add to, or remove funds from the investment balance, consideration should include investment time horizons, investment risk, and Ark’s short to medium-term funding requirements (aligned to strategic objectives).

4.9 Governance

Ark’s Board of Management is responsible for approving Ark’s initial investment mandate / strategy, and any changes thereafter.

Board members must have a reasonable knowledge, experience and understanding of investments, to allow them to perform their duties appropriately. Board members can keep up to date with market developments by reading Ark's investment managers regular reviews and media reports.

Investments will form an element of the Board induction process for new Board members, and on-going Board development.

At least two members of the Board of Management should be identified as authorised signatories for the purposes of liaising with Ark's investment manager. At least one senior Ark employee (expected to be the Director or Head of Finance, or another member of the Senior Leadership Team) should also be noted as an authorised signatory, to deal with day to day administrative matters.

4.10 Performance Reporting

Changes in the value of Ark's investment will be reported quarterly as part of the routine management accounts reporting process.

The investment manager will, on an annual basis, provide an update on performance and wider investment conditions to Ark's Board of Management. This should allow the Board to assess performance against benchmark / target.

5.0 Implementation and Review

5.1 Implementation

The Director of Finance is responsible for ensuring that this procedure, and the policy that supports it, is followed by Board members and employees with treasury management responsibility.

5.2 Review

The Director of Finance will ensure that this procedure is reviewed at least every three years.

Appendix 1 – Investment Risk Definitions

The table below summarises the levels of investment risk appetite available to Ark (source: Brewin Dolphin Risk Guide):

Risk Level	Risk Category	Definition
1	No Risk	You are completely averse to any investments that could put your capital at risk. You accept that, in light of inflation, this is highly likely to have the effect of eroding the purchasing power of your capital. This typically means that your money will be held in cash, building society accounts or national savings.
2	Extremely Low	You are prepared to accept only a very limited risk of loss to your capital. As a result your investment portfolio is likely to be composed of interest bearing assets with limited potential for short or long-term growth. You accept that in light of inflation, this strategy may have the effect of eroding the purchasing power of your capital. This means that you will still typically invest in cash and national savings, but will also have some exposure to fixed income investments (in the form of UK Government securities – gilts) and to equities (in the form of collective investment schemes).
3	Very Low	You are averse to risk and therefore not comfortable with significant investments in your portfolio which might put your capital at risk. Preservation of your capital is very important to you and you would like to maintain the real value of your investments against inflation. Your portfolio will typically have some exposure to equities and a proportionately higher exposure to fixed income investments, at least some of which will contain market exposure. Your portfolio is likely to have very low market volatility and is designed to mitigate the chance of a loss to capital, which will substantially limit the potential for high returns. There is still some risk of not maintaining the purchasing power of your capital.
4	Low	You are not comfortable with having the majority of your portfolio in higher-risk investments such as equities. Capital preservation is important to you and you would like to maintain the real value of your investments against inflation. Your portfolio is likely to be more evenly balanced between equities and fixed income investments. The equity selection is such that your portfolio is likely to have low market volatility and is designed to provide some capital preservation, whilst at the same time allowing for increased levels of returns.

Risk Level	Risk Category	Definition
5	Low to Moderate	You would like a significant proportion of your portfolio to be in higher-risk investments and you are willing to accept a greater short-term potential for losses from your overall portfolio, in order to generate potentially higher long-term returns. Your portfolio may typically have a higher exposure to equities than fixed income investments and is likely to have low to moderate levels of market volatility.
6	Moderate	You are prepared to have the significant majority of your investments in equities in order to achieve higher returns at the expense of greater risk to your capital. Your portfolio will typically have a substantially higher weighting towards equities than fixed income investments and is likely to have moderate market volatility.
7	Moderate to High	You would like to have the opportunity for large scale returns and you are comfortable with having a larger proportion of your capital at risk, and accept the possibility of larger short-term losses, in order to achieve your long-term investment aims. Your portfolio will typically have a very high weighting towards equities and very low levels of fixed income investments. Your portfolio is likely to have moderate to high market volatility.
8	High	You would like to have the opportunity for high returns and you are prepared to accept the possibility of a significant loss of capital in order to achieve these greater potential returns. Your portfolio will typically be almost exclusively invested in equities. Your portfolio is likely to have high market volatility.
9	Very High	You are willing to invest in higher-risk and speculative investments to achieve high possible returns and accept the risk of losing all, or a substantial part of, your investment. Typically, this could include very high-risk investments such as venture capital trusts, enterprise investment schemes and other specialist investments.
10	Extremely High	You are prepared to make wholly speculative investments, fully aware of and accepting the possibility of losing all of your capital. This could typically be in the form of derivatives and contingent liability investments, which often include gearing which means you could lose more than your initial capital investment. You are totally insensitive to risk.