Malvern Hills Trust

Finance Administration and Resources Committee

Tuesday 11 February 2020 7.00 pm

In attendance: Ian Burrows, Brewin Dolphin

Venue:
Manor House
Grange Road
Malvern, WR14 3EY

Meeting of the Finance, Administration and Resources Committee

Manor House
Tuesday 11th February 2020 at 7:00 pm

Members: Mr M Cordey, Mr D Core, Mr M Davies, Mr D Fellows, Mrs L Hodgson, Mr J Michael, Mr C Penn, Prof J Raine, Ms S Rouse, Mr J Watts.

Ian Burrows is attendance for 6 & 7

Agenda

1. Apologies for Absence
2. Chair's Communications
   2.1 Levy 2020/21
3. Declarations of Interest
4. Public comments
5. Matters arising from previous meetings not otherwise on agenda
6. To review investment fund risk categories — Paper A
7. Report of the Ethical Investment Working Group — Paper B
8. Worcestershire pension scheme — Paper C
9. Reserves policy annual reassessment — Paper D
10. Reports - for information
   10.1 Management accounts for the 9 months ended 31.12.19 — Paper E
   10.2 Review of major projects (including Land Management) — Paper F
   10.3 Charity Commission Scheme costs – report from monitoring team — Verbal Update
   10.4 Fund raising — Verbal Update
   10.5 Report of CEO's exercise of delegated expenditure powers — Verbal Update
   10.6 Legacy –working group — Verbal Update
   10.7 Red flag items off the risk schedule

16. Urgent Business
17. Date and time of next meeting 14 May 2020 7pm

Paper A
For decision

Finance, Administration & Resources Committee

Investment portfolios – risk categories

11th February 2020

The trustees are required to review the investment policies each year, and specifically to confirm the risk category. A briefing paper from Brewin Dolphin is attached, together with a copy of their Risk Guide. Copies of the current investment policies are on the Board members' area of the MHT website.

Ian Burrows will attend the FAR Committee meeting to guide trustees through the review.

Following the discussion, the FAR Committee is asked to agree a recommendation to the Board stating which risk category is to be applied to the portfolios.

Cheryl Gentry
Finance & Administration Manager
28th January 2020

BREWIN DOLPHIN

Malvern Hills Trust
Investment Risk Discussion Paper
December 2019

1.0 Introduction

It is best practice to review your investments on a regular basis to ensure that they are still suitable for your requirements. As such, it was agreed during the FAR meeting on the 10th December to review the target level of investment risk within both the Lands Acquisition Fund and also the Parliamentary and Lands Maintenance Funds invested with Brewin Dolphin. This short paper is designed to assist you as Trustees with this review by highlighting the key considerations. It is designed to be read in conjunction with the Brewin Dolphin Risk Guide which is attached.

2.0 Factors to consider:

We believe that there are three broad factors to consider to help us to determine what is the most appropriate degree of investment risk. These are:

2.1 Required rate of return
We believe that investment returns are intrinsically linked to the level of investment risk incurred and that it is not possible to generate high returns without incurring high degrees of risk. As such, it is important to determine how much investment return i.e. profit, you are seeking from your investments, as either a monetary amount (i.e. a specific £ target) or as a percentage. We can then attempt to broadly match this against the level of risk that has been required to achieve that target return over the long-term history of investment markets.

Lands Acquisition
To date, I have understood that the objective of the Lands Acquisition Fund has been to keep pace with the rise in the value of the land that you might seek to acquire in the future, using this fund. There is no precise guide to how the value of the local Malvern land has performed although agents such as Knight Frank do publish national indexes of agricultural land. The Knight Frank index shows that land has increased by an average of 7.5% p.a. over the past 50 years although by only 3.4% over the last 10 years given that values peaked in 2015 and have been falling since.

Q. Is this still an appropriate objective for this fund?
Q. Do the Trustees have a view on how land prices are likely to change or what figure we should assume for a target rate of return?

Parliamentary & Lands Maintenance Fund
This fund is slightly different in that the income can be used to finance your general activities and so it has had both an income and also a capital growth objective. The Parliamentary part of the fund can be used to acquire land and hence many of the same considerations as with the Lands Acquisition Fund apply although this fund can also be used to acquire other capital assets. The Lands Maintenance Fund meanwhile is an endowment where the capital may not be spent and the income is to be used to maintain the Trust's land at Townsend Way.

To date, I have understood that a reasonable income yield is required (assume circa 2.5% to 3%) plus capital growth to at least preserve the real value of the capital on the Lands Maintenance Fund and to keep pace with land prices on the Parliamentary Fund.

Q. Is this still an appropriate objective for this fund?

2.2 Trustees attitude to risk

The second consideration is to ensure that the Trustees are comfortable with the level of investment risk. Risk can be a subjective concept and so the Brewin Dolphin Risk Guide contains a number of statistics that can be used as a guide. For example, for each Risk Category we show the following:

Brewin Risk Measure

A guide to the potential volatility of the portfolio, i.e. by how much it might move in value in an up or down fashion. It shows how much might be lost in a single month if the worst 1% of historical experience is repeated.

Largest Fall in Value over the Period

A guide to the greatest loss that has been experienced in the past which we show for different periods, i.e. the past 5 years, past 10 years and also past 15 years. This is not a guarantee that the portfolio won't fall by more than this, just a guide to what has happened in the past.

Longest time to recover

A guide to how long the portfolio value was below its previous peak before it recovered that value. Again, this is not a guarantee that the portfolio won't lose value for longer periods, just a guide to what has happened in the past.

For the current Risk Category 6 the Brewin Risk Measure shows that the portfolios may be expected to fall by between 9% to 15% in a single month if the worst 1% of historical experience is repeated. It also shows that in the past a similar portfolio would have suffered a total fall in value of 27.4% and taken 29 months (2 years 5 months) to recover its previous peak.

Q. Are you comfortable with this potential level of risk, assuming that the future could possibly be worse than the past?

2.3 Capacity to accept loss

The final consideration is to evaluate how much risk the organisation can afford to accept without it impacting upon your ability to achieve your objectives. For this, we consider what would be the impact if the statistics mentioned above regarding falls in value above where to occur in the near future.

The key risk that has been identified in the past has been if a parcel of land where to become available to purchase at the same time as the value of the portfolio suffers a fall of the amount indicated above. Such a coincidence may seem unlikely albeit we should consider that challenging economic conditions, for example, could cause both a landowner to seek to sell and the value of the portfolio to fall at the same time. To date, I understand that should such an event occur the Trustees would be prepared to not purchase the land or to take a loan from a bank to facilitate the land purchase and so they can stand such a loss.

Q. Are the Trustees still content with this?

3.0 Conclusion

The identification of the most appropriate level of investment risk is one of the key criteria in the effective and successful management of the portfolio and so it is important to get this right. The rationale that was used to justify the current approach is discussed above but that does not necessarily mean that it is appropriate now or in the future. Indeed, Trustees should feel free to question any or all of the assumptions used and to propose an alternative course if that is felt to be more appropriate. Trustees should also feel free to adopt a different approach for one or the other Fund as each can be managed independently, to a different Risk Category, if that is felt to be suitable.

If any Trustee has any questions or query then please feel free to contact me on 0121 710 3573 or via email ian.burrows@brewin.co.uk.

BREWIN
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Risk guide

Understanding risk

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Important information

All of the investment solutions we offer involve some form of investment risk. You should be aware that the value of investments and any income from them can fall and you may get back less than originally invested.

If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset.

Our services are not suitable for everyone, but we can advise you on the specific services that are suitable for you.

We may provide guidance on using tax-efficient structures such as making use of tax allowances. You should be aware that tax structures are subject to changes in legislation and depend on your personal circumstances. Your adviser will be happy to discuss any of these in greater detail.

You have sole responsibility for the management of your tax and legal affairs including all applicable tax filings and payments for complying with applicable laws and regulations. We are not specialist tax advisers and will not provide you with tax or legal advice and recommend that you obtain your own independent tax and legal advice, tailored to your individual circumstances.

Past performance is not an indication of future performance. In this document performance is quoted before fees, charges, levies and taxes and these may have the effect of reducing the illustrated performance. All performance shown is based upon any income generated being re-invested, except for the Average Capital Return and Average Yield figures.

The expected returns shown are based on our long-term forecasts, for a mix of assets similar to a portfolio suitable for an investor aligned to the Risk Category indicated.

The data in our sample charts is based on reasonable assumptions which are in turn based on objective data. There are no guarantees that these levels of performance will be achieved, in which case any returns will differ from those illustrated.

The range of Alternative assets that can be used in client portfolios has changed over the years and prior to June 2005, the historic performance of the Alternatives asset class was wholly based upon the Property index shown on page 14. From June 2005, the historic performance of the Alternatives asset class has been based upon both the Property and Targeted Absolute Return indices, as shown on page 14. This change represents the broader range of alternative investment options that have become available to investors over time.

Contact us

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Contents

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Overview

Introduction

This document provides a brief overview of the risk categories used by Brewin Dolphin to determine an investment mandate. We set out the types of investments a portfolio is likely to be composed of and we also give an indication of the level of risk and potential return.

We provide example charts to help you understand the financial concepts involved and what could happen to the portfolio.

How long should you invest for?

In general terms, the longer the time horizon the better, particularly if you need to maximise your capital growth. Investing with a longer-term view – for example, 10 years or more – gives more time to recover losses on the portfolio which may be caused by periods of market volatility and therefore sits relatively well with higher-risk investment strategies. Investing on a shorter-term view, such as three to five years reduces the time available to recover losses and costs. Investing with a higher-risk investment strategy over the short-term will require a greater ability to withstand volatility.

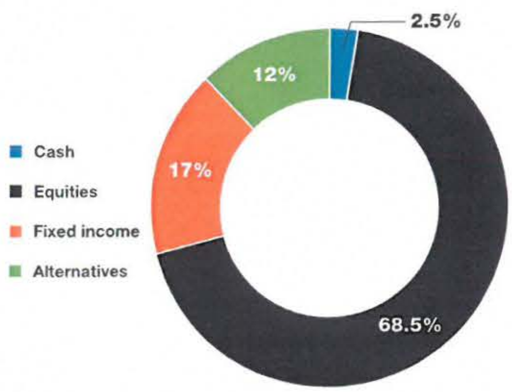
What will your portfolio be invested in?

How the portfolio is constructed will depend on the investment mandate, and we will consider how much return you are trying to achieve in the context of your willingness and ability to accept risk.

We will agree a mandate with you to help achieve your objectives by investing in a mix of asset classes such as fixed income, equities, cash and alternative investments. The mix of assets is important as it influences the possible return and the amount of risk within the portfolio.

Please refer to the appendix for more information.

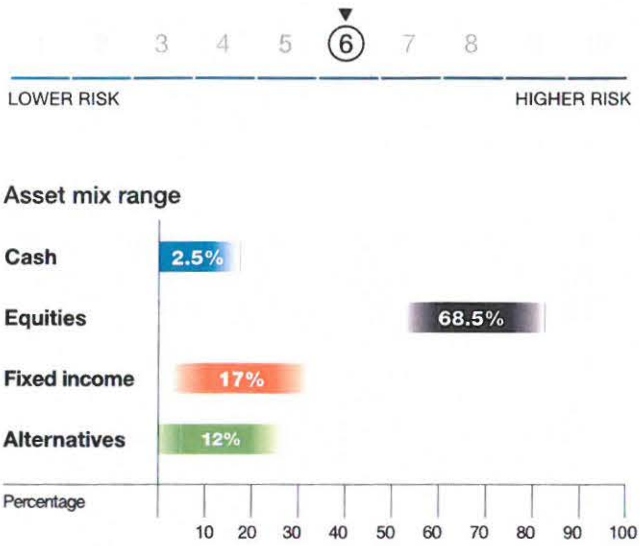
Example asset mix (Risk Category 6)



We set limits on this mix of assets to control risk and over time we will review these to ensure that they are still appropriate.

The sample chart below shows how we can tailor the asset mix for each risk category to better meet your needs. We will adjust the asset mix around the midpoint (shown for each asset class) to take account of both the specific investment objectives and prevailing market conditions.

Example asset mix range (Risk Category 6)



We have three broad categories of investment objectives to choose from:

- **Income** (where your priority is to generate an income from your investments)
- **Capital growth** (where you have a priority to grow your investments)
- **Income and capital growth** (where you require a combination of both income and capital growth).

These investment objectives could also have a bearing on the composition of the portfolio.

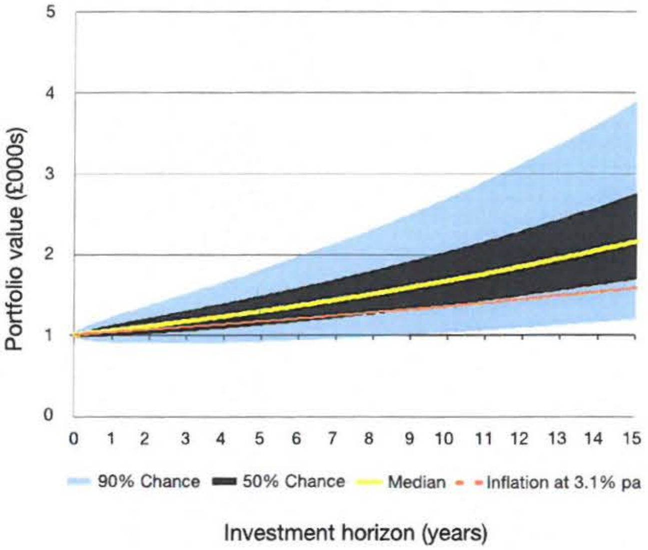
How much could the portfolio grow?

The market changes a great deal but your investment manager, supported by our research team, will endeavour to manage the portfolio to achieve your investment objectives. The longer the period you invest for, the more chance the portfolio has to grow.

For illustrative purposes, the following chart shows the range of likely returns, based on a moderate level of risk. As you can see, in the early years the range of returns is smaller but easier to predict. In the long-term, the returns are greater, but more difficult to predict as shown by the widening shaded area on the chart.

Example projected accumulation of wealth (Risk Category 6)

The potential value of a portfolio of £1,000 over a projected 15-year period from 30 June 2019.



Source: Brewin Dolphin Limited, Datastream as at 30 June 2019
Please note, in the example chart above, we have used a market-based rate of 3.1% for inflation.

The yellow line on the chart represents the mid-point of the range of forecast outcomes. This means that there is an equal probability of the value of the portfolio either being above or below the yellow line at any point in time.

The expected returns detailed in the above sample chart are based on Brewin Dolphin's return forecasts for a mix of assets similar to a portfolio Risk Category 6. The size of the shaded bands is based on historic market data covering the previous 15 years up to 30 June 2019.

The sample chart shows the expected amount of return that could be created in a portfolio over a 15-year period with an initial investment of £1,000. For illustrative purposes, the chart shows the total return assuming that all income generated by the portfolio is reinvested.

Two key points that sample charts like these aim to illustrate are:

- The longer the period invested, the less predictable the returns achieved will be
- The more investment risk accepted, the less predictable the returns achieved will be.

The shaded areas of the chart represent various forecasts showing the likelihood of achieving a level of asset accumulation, as follows:

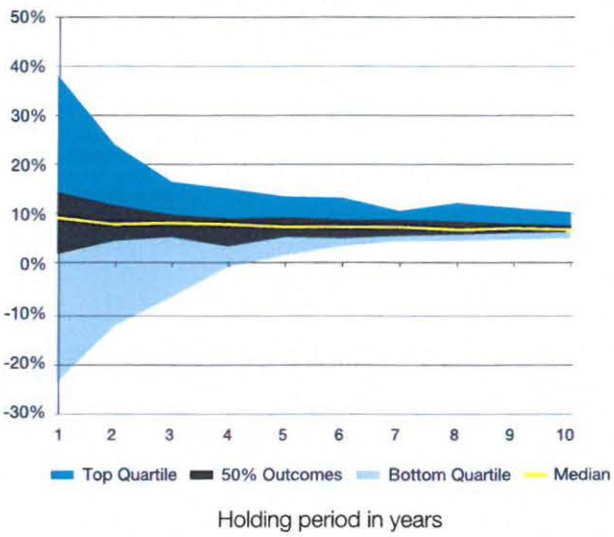
- The dark blue area shows 50% of all forecasts
- The lighter coloured areas represent less likely outcomes with 90% of all forecasts falling within this illustration. For example, we believe that there is 90% probability that the accumulated assets in the portfolio shown would range between £1,200 and £3,800 after 15 years
- There is a further 10% probability that the value of the portfolio could be outside of the ranges shown in this illustration – either above or below the ranges shown.

Please see the Important information on page 2

What is the advantage of investing over a longer time horizon?

Example annualised historic returns for Risk Category 6

The chart below illustrates the range of annualised returns that an investor would have historically received over different periods. For shorter periods there is a wider range of outcomes, but as the time held lengthens, the range narrows. The shorter-term variability of returns is smoothed over time. The chart shows holding periods covering data up to 10 years.



Source: Brewin Dolphin Limited, Datastream as at 30 June 2019

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Brewin Dolphin's risk categories

The following table provides a brief description of the 10 risk categories we have identified, including the level of investment risk represented by each category.

We consider that the risks posed by our Discretionary Investment Management services are suitable for clients placed in the risk categories from 3 to 8. We judge our Financial Planning services to be suitable for clients generally in the risk categories from 3 to 9.

Risk Category				Description
1				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				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	Wealth Management	Financial Planning	Discretionary Investment Management	You place a higher priority on preserving the value of your investments over investment returns and typically will be sensitive to large negative movements in the value of your investment. You are looking to maintain the real value of your investments against inflation and are happy to accept a small degree of fluctuation in the value of the portfolio to achieve this. As a result, the portfolio will hold a greater proportion in lower risk asset classes, such as cash, fixed income and alternatives, relative to the higher risk asset class of equities.
4				Preserving the value of your investments remains 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 amount invested in equities is such that your portfolio is likely to experience some market volatility in exchange for the potential of increased levels of return.
5				You are looking to maintain the real value of your investments by achieving returns above inflation. Preserving the value of your investment remains important, but you are willing to accept short term volatility to generate potentially higher long-term investment returns. The portfolio will be more evenly balanced between equities and the combined asset classes of cash, fixed interest and alternatives.
6				You are prepared to have a greater proportion of your investment held in equities with the aim of achieving a higher investment return over the long-term. The greater allocation to equities means the portfolio may experience heightened levels of volatility over the investment term. The portfolio will typically include two thirds of the assets invested in equities whilst the remainder will be split between cash, fixed income and alternatives. You are prepared to accept fluctuations in the value of the portfolio to achieve your investment goals.
7				You are seeking to generate higher investment returns through an increased exposure to equities to help achieve your long-term investment goals. The portfolio will typically have a very high proportion of the investment held in equities and very low levels of fixed income, cash and alternative asset classes. A larger proportion invested in equities increases the likelihood of volatility and degree of change in the overall value of the portfolio.
8				You are looking to maximise your investment returns by having a portfolio invested almost entirely in equities. Significant levels of volatility and more frequent changes in the value of the investments can be expected, but you are willing to accept these risks to achieve your investment goals.
9				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				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.

What is the difference between the risk categories?

The following pages show the difference between Risk Categories 3 to 8. Investments classified as Risk Category 9 often benefit from HM Revenue & Customs (HMRC) reliefs such as those provided by Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EIS). Typically they form part of an overall investment plan for higher earners and sophisticated clients with significant assets. Tax relief is provided to encourage investment into certain areas such as regeneration projects, renewable energy and forestry. Whilst to some the tax benefits can be very attractive, this must be balanced with a higher risk of loss and reduced liquidity.

What is the Brewin Risk Measure?

The method we use for measuring risk in a portfolio of assets is called the Brewin Risk Measure (BRM), which is calculated according to an industry standard for risk estimation. By considering what has happened in the past, it aims to provide a reasonable indicator of what could happen in the future. While we expect the value of the portfolio to increase over the longer term, it is important that you understand your investment will be exposed to risk.

Simply put, the BRM is a way of giving a feel for how much the portfolio value could fall over a single month. We consider the worst 1% of actual historic price movements for each of the asset classes in the portfolio and we assess the impact that these would have on the portfolio value.

For example, a BRM of 12% (the midpoint of Risk Category 6's BRM range) would mean that over a period of investing for 10 years (c. 2,500 business days), there would be 25 days (1%) on which your portfolio could be expected to show a loss of 12% or more on the value one month before.

Example BRM range (Risk Category 6)

Brewin Risk Measure 9% – 15%

We use the BRM to set limits for the amount of risk that can be taken in portfolios being managed for clients in each of the risk categories and generally we will aim to operate the portfolio within these ranges. For example, if we are managing a portfolio for a client in Risk Category 3, then the numbers in the BRM range will be at a lower level than in Risk Category 8 and so on. In short, we will be taking less investment risk for a client in Risk Category 3 than for a client in Risk Category 8 and the BRM enables us to monitor this effectively.

How much might the portfolio lose?

We cannot say with certainty how much the portfolio could lose. However, we can estimate the possible losses based upon historical data. Although the past performance of financial markets is not a reliable guide to how the company's portfolio will perform in the future, it can provide a useful guide to help you understand the changes that the portfolio might experience.

In the illustration shown, we can see a significant drop in the value of the asset mix. The fall took the portfolio value to £1,093. However, as you can see the value of the portfolio then increased over time and would have been worth £3,190 over the full 15-year period.

How long could the portfolio take to recover?

The following table shows the biggest loss and the longest period to recover the value of the portfolio in the example chart.

Example historic asset mix characteristics for the last 15 years (Risk Category 6)

Average total return per year	8.0%
Average capital return per year	4.9%
Average yield	2.8%
Gain over the period*	219.0%
Largest fall in value during the period*	27.4%
Longest time to recover (months)*	29

Source: Brewin Dolphin Limited, Datastream as at 30 June 2019

* Based on total return

Example historic 15 year performance

The past performance of a mix of assets similar to a portfolio suitable for an investor in Risk Category 6.

Source: Brewin Dolphin Limited, Datastream from 30 June 2004 to 30 June 2019

Please note

For each of the 6 risk categories available to Discretionary Investment Management clients we have only shown the recommended asset mix for the income and capital growth objective. This is because our recommended asset mixes for each Risk Category are very similar for all three investment objectives (for example, for Risk Category 4 the recommended asset mix is very similar whether the objective is income, capital growth or income and capital growth and so on). This is due to our Asset Allocation Committee's assessment of current market conditions. We will keep you informed if our recommended asset mixes for the three investment objectives across each of the risk categories changes.

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③ 4 5 6 7 8

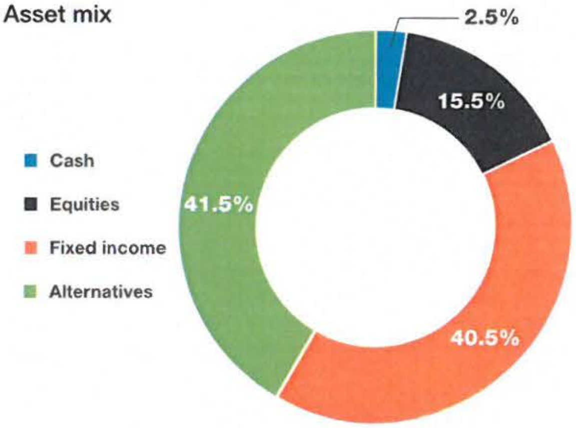
LOWER RISK HIGHER RISK

RISK CATEGORY 3

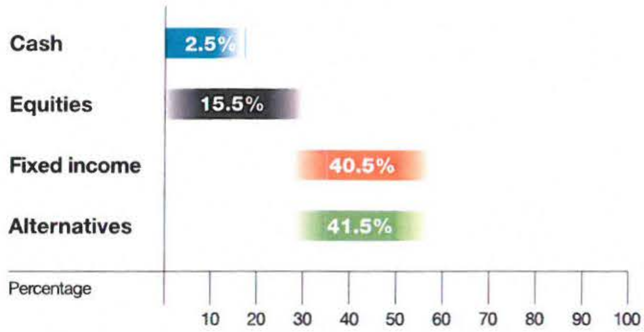
Brewin Risk Measure 2.5% – 7.5%

You place a higher priority on preserving the value of your investments over investment returns and typically will be sensitive to large negative movements in the value of your investment. You are looking to maintain the real value of your investments against inflation and are happy to accept a small degree of fluctuation in the value of the portfolio to achieve this. As a result, the portfolio will hold a greater proportion in lower risk asset classes, such as cash, fixed income and alternatives, relative to the higher risk asset class of equities.

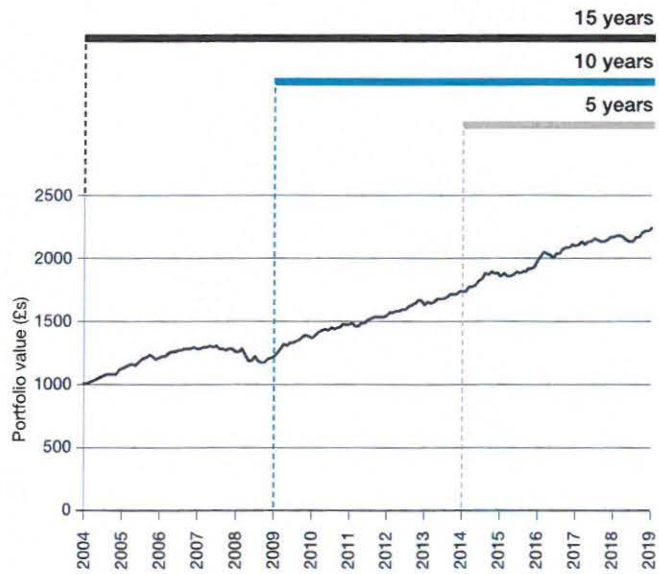
Asset mix



Asset mix range



Performance for this asset mix over the past 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 14.

Source: Brewin Dolphin Limited, Datastream from 30 June 2004 to 30 June 2019

Please see the Important information on page 2

Historic asset mix characteristics for the past 15 years

Average total return per year	5.5%
Average capital return per year	2.7%
Average yield	2.5%
Gain over the period*	123.8%
Largest fall in value during the period*	10.8%
Longest time to recover (months)*	23

Historic asset mix characteristics for the past 10 years

Average total return per year	6.3%
Average capital return per year	3.6%
Average yield	2.3%
Gain over the period*	84.0%
Largest fall in value during the period*	2.2%
Longest time to recover (months)*	8

Historic asset mix characteristics for the past 5 years

Average total return per year	5.3%
Average capital return per year	2.9%
Average yield	1.9%
Gain over the period*	29.5%
Largest fall in value during the period*	2.2%
Longest time to recover (months)*	8

* Based on total return

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3 (4) 5 6 7 8

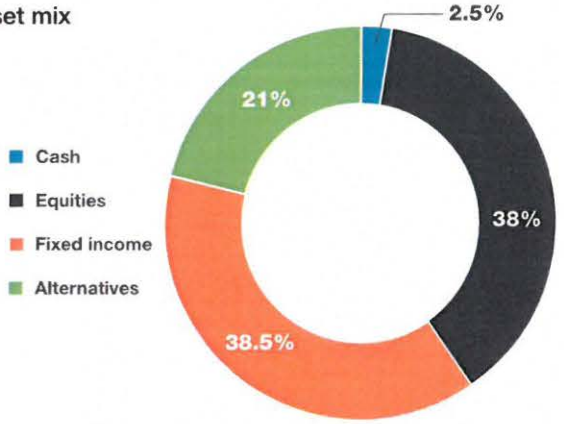
LOWER RISK HIGHER RISK

RISK CATEGORY 4

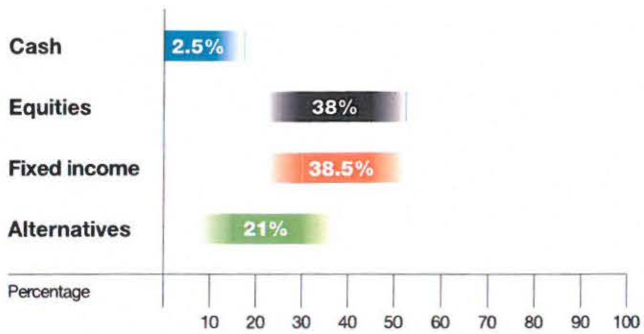
Brewin Risk Measure 4.5% – 10%

Preserving the value of your investments remains 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 amount invested in equities is such that your portfolio is likely to experience some market volatility in exchange for the potential of increased levels of return.

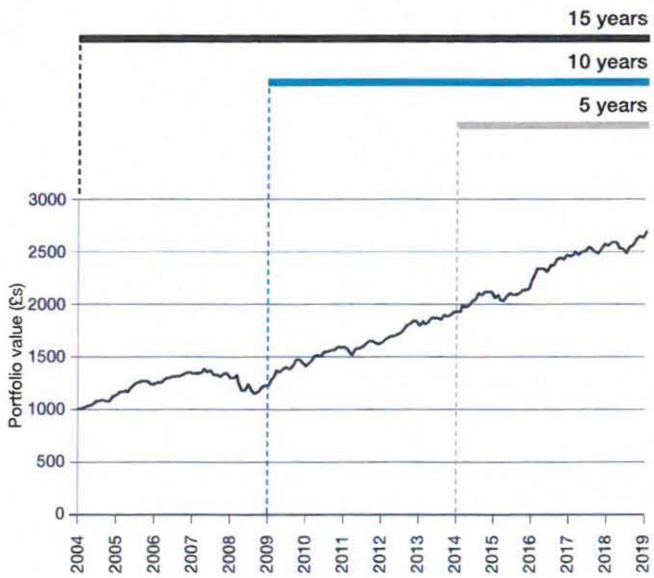
Asset mix



Asset mix range



Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 14.

Source: Brewin Dolphin Limited, Datastream from 30 June 2004 to 30 June 2019

Please see the Important information on page 2

Historic asset mix characteristics for the past 15 years

Average total return per year	6.8%
Average capital return per year	3.5%
Average yield	2.9%
Gain over the period*	167.5%
Largest fall in value during the period*	17.1%
Longest time to recover (months)*	25

Historic asset mix characteristics for the past 10 years

Average total return per year	8.1%
Average capital return per year	5.0%
Average yield	2.6%
Gain over the period*	118.6%
Largest fall in value during the period*	4.4%
Longest time to recover (months)*	10

Historic asset mix characteristics for the past 5 years

Average total return per year	6.9%
Average capital return per year	4.1%
Average yield	2.3%
Gain over the period*	39.8%
Largest fall in value during the period*	4.2%
Longest time to recover (months)*	10

* Based on total return

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3 4 5 6 7 8

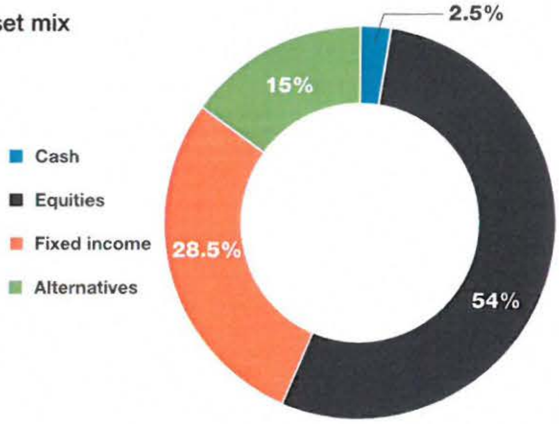
LOWER RISK | HIGHER RISK

RISK CATEGORY 5

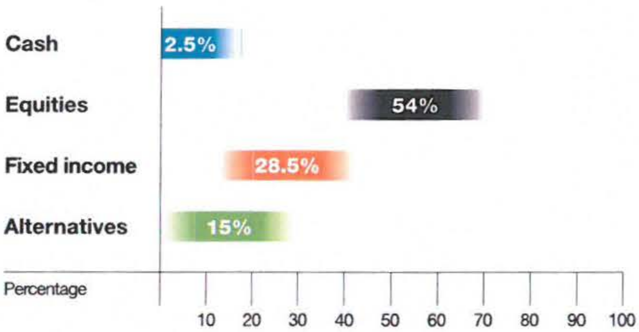
Brewin Risk Measure 6.75% – 12.5%

You are looking to maintain the real value of your investments by achieving returns above inflation. Preserving the value of your investment remains important, but you are willing to accept short term volatility to generate potentially higher long-term investment returns. The portfolio will be more evenly balanced between equities and the combined asset classes of cash, fixed interest and alternatives.

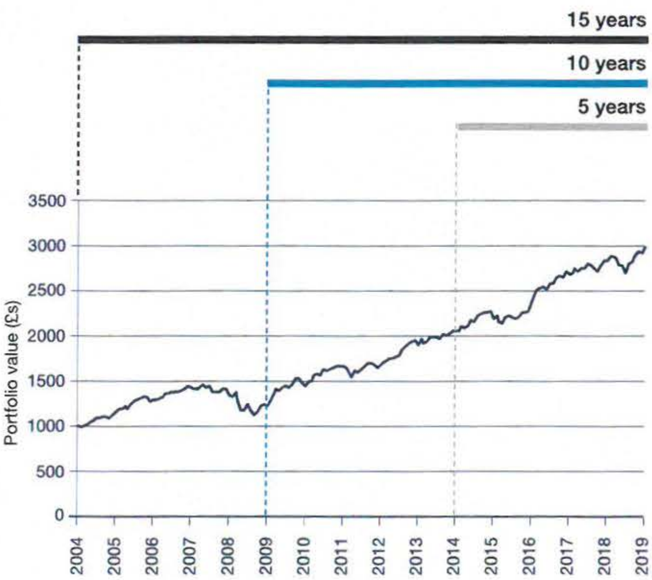
Asset mix



Asset mix range



Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 14.

Source: Brewin Dolphin Limited, Datastream from 30 June 2004 to 30 June 2019

Please see the Important information on page 2

Historic asset mix characteristics for the past 15 years

Average total return per year	7.5%
Average capital return per year	4.2%
Average yield	2.9%
Gain over the period*	194.9%
Largest fall in value during the period*	22.5%
Longest time to recover (months)*	28

Historic asset mix characteristics for the past 10 years

Average total return per year	9.2%
Average capital return per year	6.0%
Average yield	2.7%
Gain over the period*	141.3%
Largest fall in value during the period*	7.0%
Longest time to recover (months)*	12

Historic asset mix characteristics for the past 5 years

Average total return per year	7.8%
Average capital return per year	4.8%
Average yield	2.5%
Gain over the period*	45.6%
Largest fall in value during the period*	5.9%
Longest time to recover (months)*	12

* Based on total return

3 4 5 (6) 7 8

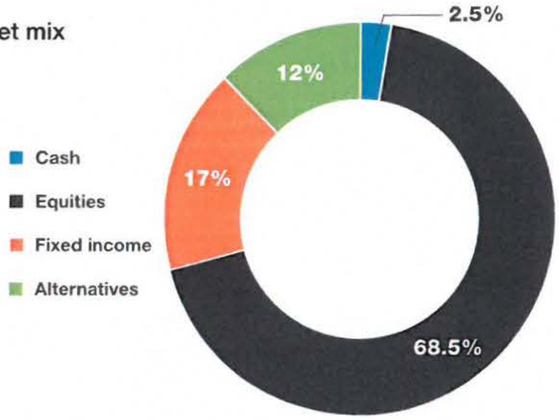
LOWER RISK | HIGHER RISK

RISK CATEGORY 6

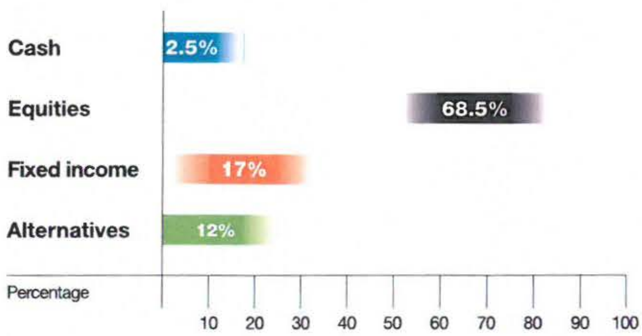
Brewin Risk Measure 9% – 15%

You are prepared to have a greater proportion of your investment held in equities with the aim of achieving a higher investment return over the long-term. The greater allocation to equities means the portfolio may experience heightened levels of volatility over the investment term. The portfolio will typically include two thirds of the assets invested in equities whilst the remainder will be split between cash, fixed income and alternatives. You are prepared to accept fluctuations in the value of the portfolio to achieve your investment goals.

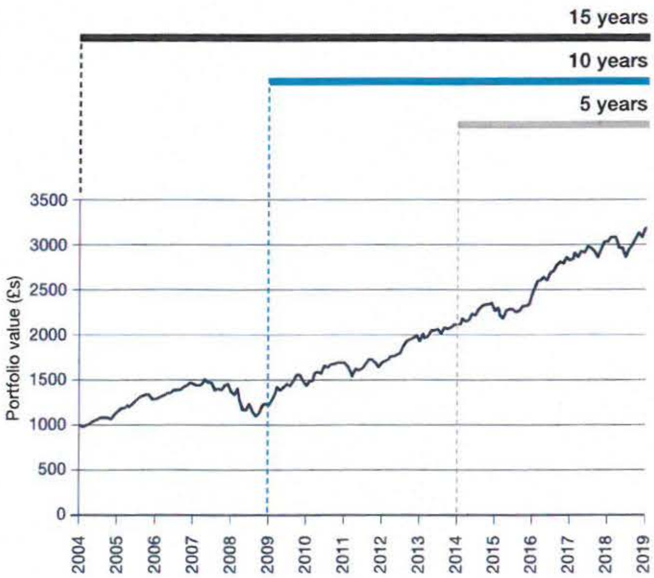
Asset mix



Asset mix range



Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 14.

Source: Brewin Dolphin Limited, Datastream from 30 June 2004 to 30 June 2019

Please see the Important information on page 2

Historic asset mix characteristics for the past 15 years

Average total return per year	8.0%
Average capital return per year	4.9%
Average yield	2.8%
Gain over the period*	219.0%
Largest fall in value during the period*	27.4%
Longest time to recover (months)*	29

Historic asset mix characteristics for the past 10 years

Average total return per year	10.1%
Average capital return per year	7.0%
Average yield	2.7%
Gain over the period*	162.6%
Largest fall in value during the period*	9.6%
Longest time to recover (months)*	13

Historic asset mix characteristics for the past 5 years

Average total return per year	8.6%
Average capital return per year	5.6%
Average yield	2.6%
Gain over the period*	50.7%
Largest fall in value during the period*	7.5%
Longest time to recover (months)*	13

* Based on total return

3 4 5 6 (7) 8

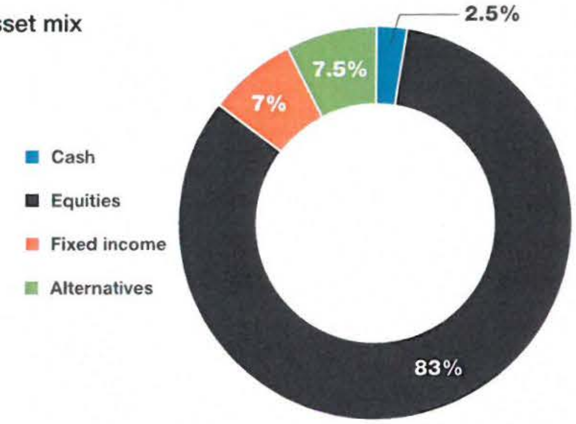
LOWER RISK HIGHER RISK

RISK CATEGORY 7

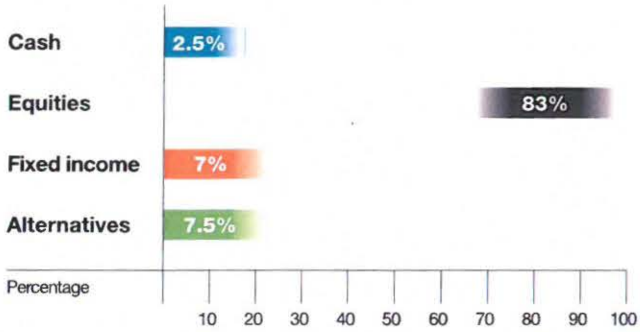
Brewin Risk Measure 11.25% – 17.5%

You are seeking to generate higher investment returns through an increased exposure to equities to help achieve your long-term investment goals. The portfolio will typically have a very high proportion of the investment held in equities and very low levels of fixed income, cash and alternative asset classes. A larger proportion invested in equities increases the likelihood of volatility and degree of change in the overall value of the portfolio.

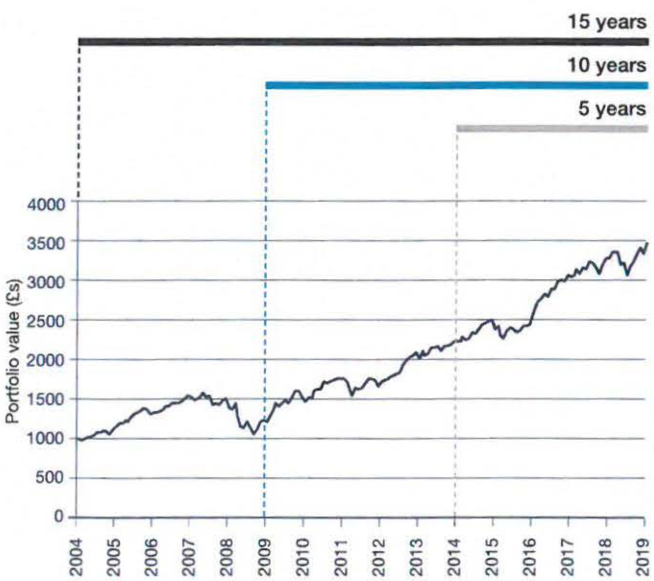
Asset mix



Asset mix range



Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 14.

Source: Brewin Dolphin Limited, Datastream from 30 June 2004 to 30 June 2019

Please see the Important information on page 2

Historic asset mix characteristics for the past 15 years

Average total return per year	8.6%
Average capital return per year	5.5%
Average yield	2.8%
Gain over the period*	244.8%
Largest fall in value during the period*	31.9%
Longest time to recover (months)*	29

Historic asset mix characteristics for the past 10 years

Average total return per year	11.1%
Average capital return per year	7.9%
Average yield	2.8%
Gain over the period*	185.3%
Largest fall in value during the period*	12.1%
Longest time to recover (months)*	13

Historic asset mix characteristics for the past 5 years

Average total return per year	9.3%
Average capital return per year	6.3%
Average yield	2.7%
Gain over the period*	56.1%
Largest fall in value during the period*	9.0%
Longest time to recover (months)*	13

* Based on total return

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3 4 5 6 7 8

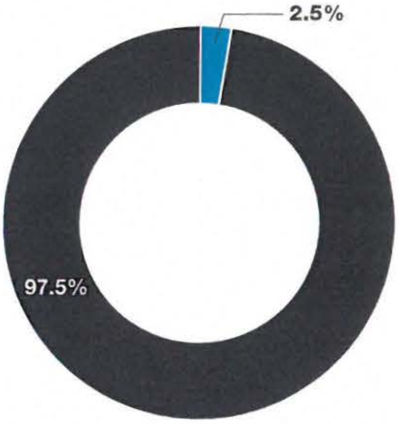
LOWER RISK HIGHER RISK

RISK CATEGORY 8

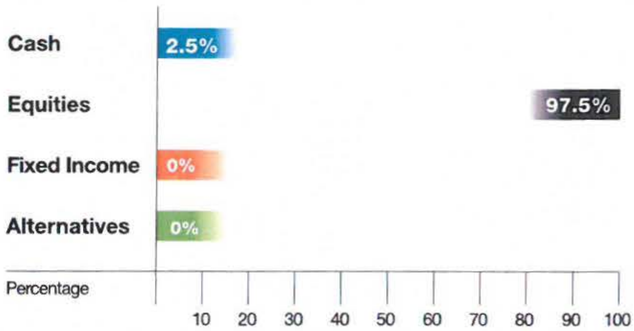
Brewin Risk Measure 13.5% – 20%

You are looking to maximise your investment returns by having a portfolio invested almost entirely in equities. Significant levels of volatility and more frequent changes in the value of the investments can be expected, but you are willing to accept these risks to achieve your investment goals.

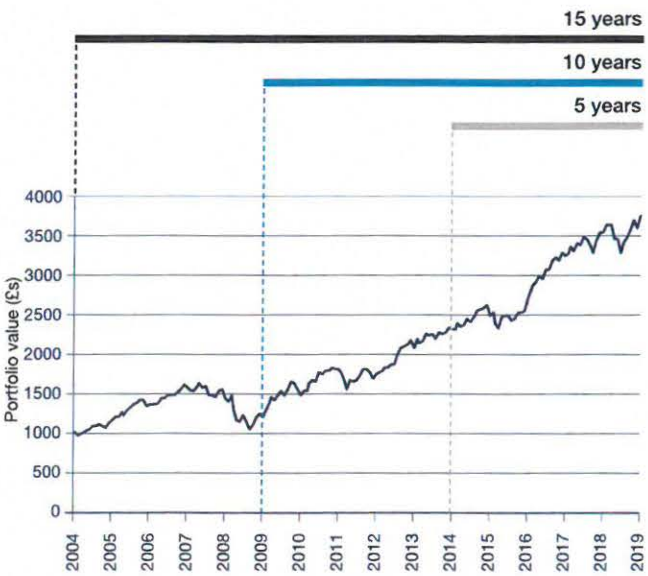
Asset mix



Asset mix range



Performance for this asset mix over the last 15 years



For more information about our performance benchmarks, please refer to the section entitled 'Our performance benchmarks' on page 14.

Source: Brewin Dolphin Limited, Datastream from 30 June 2004 to 30 June 2019

Please see the Important information on page 2

Historic asset mix characteristics for the past 15 years

Average total return per year	9.2%
Average capital return per year	6.1%
Average yield	2.9%
Gain over the period*	274.1%
Largest fall in value during the period*	35.8%
Longest time to recover (months)*	29

Historic asset mix characteristics for the past 10 years

Average total return per year	12.0%
Average capital return per year	8.8%
Average yield	2.9%
Gain over the period*	211.3%
Largest fall in value during the period*	14.3%
Longest time to recover (months)*	17

Historic asset mix characteristics for the past 5 years

Average total return per year	10.2%
Average capital return per year	7.0%
Average yield	2.9%
Gain over the period*	62.2%
Largest fall in value during the period*	10.6%
Longest time to recover (months)*	13

* Based on total return

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Our performance benchmarks

Each investment mandate has its own performance benchmark (a yardstick to measure the performance of a portfolio) which we construct from a combination of market indices which represent the asset classes that make up each mandate (Equities, Fixed Income, Alternatives and Cash). For example, for Equities we use two indices – the FTSE All Share for UK equities and the FTSE All World ex UK for overseas equities.

The weighting of each of the individual indices in the overall benchmark for each Risk Category will depend on the asset mix for that particular Risk Category. For example, for Risk Category 6, the asset mix includes 68.5% in Equities, broken down into 31.0% in UK equities and 37.5% in overseas equities. This means that 68.5% of the benchmark will be made up of equity indices – 31.0% in the FTSE All Share for the UK equity component and 37.5% in the FTSE All World ex UK for the overseas equity component. Please see the table below for details of the individual indices for each asset class (on the right hand side of the table) and their weightings in the bespoke benchmark for each Risk Category.

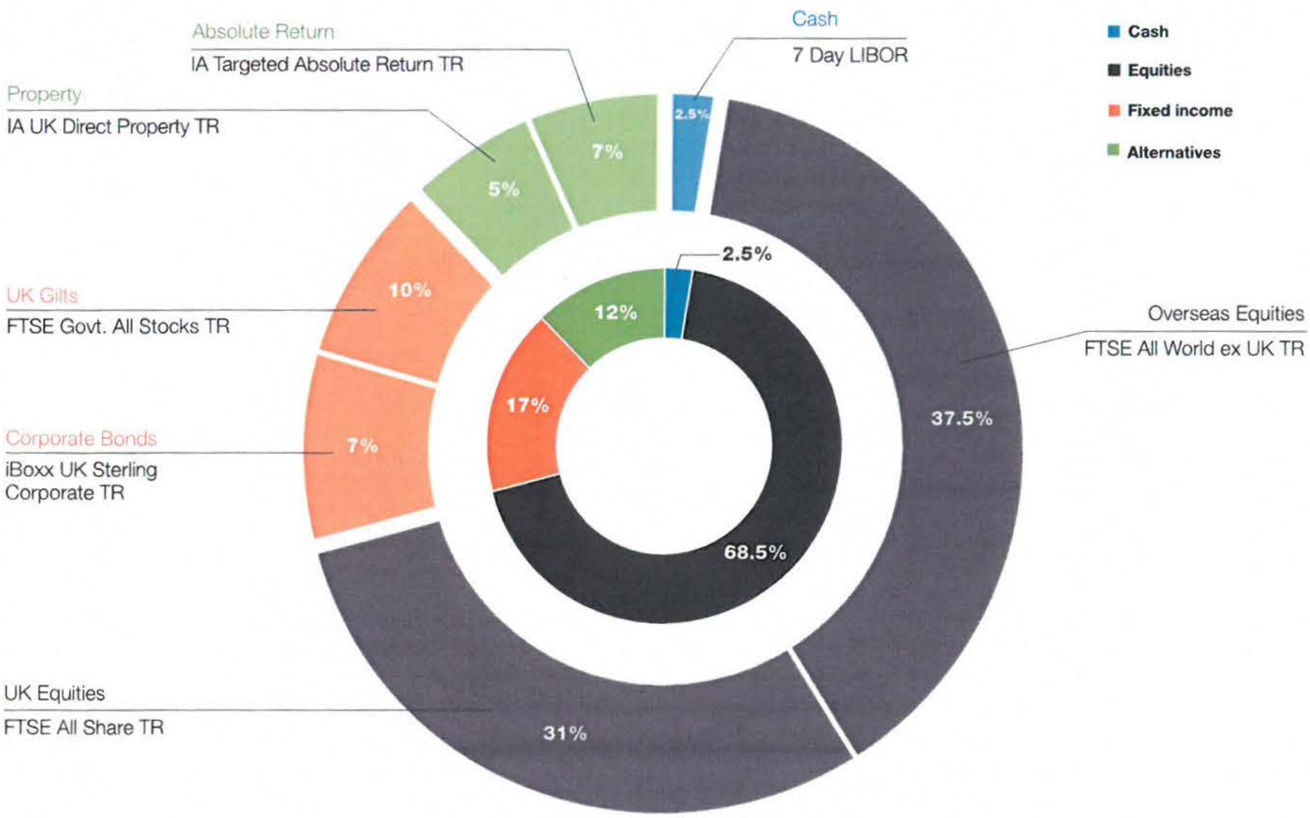
Please note that the benchmark composition numbers in the table below are based on the strategic asset allocations for each Risk Category and that the benchmark for the portfolio may be tailored to meet its individual needs.

Composition of benchmarks for each Risk Category

Asset class	Sub asset class	Risk Category 3	Risk Category 4	Risk Category 5	Risk Category 6	Risk Category 7	Risk Category 8	Index
Cash	Cash	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	7 Day LIBOR
Equities	UK Equities	7.0%	17.0%	24.5%	31.0%	37.5%	44.0%	FTSE All Share TR*
	Overseas Equities	8.5%	21.0%	29.5%	37.5%	45.5%	53.5%	FTSE All World ex UK TR*
Fixed Income	UK Gilts	24.5%	23.0%	17.0%	10.0%	4.0%	0.0%	FTSE Govt. All Stocks TR*
	Corporate Bonds	16.0%	15.5%	11.5%	7.0%	3.0%	0.0%	iBoxx UK Sterling Corporates TR*
Alternatives	Property	16.5%	8.5%	6.0%	5.0%	3.0%	0.0%	IA UK Direct Property TR*
	Absolute Return	25.0%	12.5%	9.0%	7.0%	4.5%	0.0%	IA Targeted Absolute Return TR*

*TR – Total Return is the return an investor receives when income is reinvested

Example composite of benchmark for Risk Category 6



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Appendix

A description of assets and a guide to their risks

Most of the solutions we offer involve some form of investment risk and you should be aware that the value of investments and any income from them can fall and you may get back less than the amount invested.

Our services provide exposure to financial assets – such as equities and bonds – all of which are subject to some form of investment risk. It is important to understand that the level of return you can expect from an investment that is made is related to the amount and type of risk for that investment.

Below we discuss in detail the many types of risk that can impact upon the performance of an investment. First, we will look at the broad categories of investment risk and second at the different types of investment asset and the specific risks that apply to each.

Please note that this does not necessarily mean that the portfolio(s) will contain these types of investment directly.

Types of investment risk

Volatility risk

'Volatility' is a measure of the relative rate at which the price of a particular investment moves up and down. If the price of an investment moves up and down rapidly over short time periods it can be described as having high volatility. If the price changes relatively infrequently, it can be described as having low volatility.
The movements in price of an investment could be caused by events in the domestic or global economy, changes in interest rates or currency exchange rates, general political factors or company or investment-specific factors. Some investments are more volatile than others – for example, equities would generally be more volatile than government bonds, and cash would be the least volatile.

However, it is important to understand that there is a 'trade-off' between the level of volatility you are prepared to accept and the return you can expect to achieve from an investment. As a general rule, the higher the volatility of an asset, there is not only the greater potential for positive returns but also the greater potential for losses. This is often referred to as the trade-off between risk and reward. Overall, it is important to remember that investments and the income from them may go down and you may get back less than the amount invested.

Inflation risk

If you are investing over a long period of time, you need to be aware of the long-term impact of inflation. Inflation erodes the 'purchasing power' of assets – i.e. it reduces how much they will be able to buy at future price levels. Of course, inflation risk can have an impact on all types of investment but some types are more at risk than others. For example, cash is among the asset classes most vulnerable to inflation risk. If the interest rate payable on a cash deposit in a bank or building society is consistently below the rate of inflation over time, then the 'real' value (after inflation) of that cash will be eroded. This is particularly relevant to the market conditions we have experienced in the last few years, where interest rates available on deposit accounts have been generally lower than the prevailing level of inflation for some time.

Currency risk

This form of risk relates to all investments denominated in foreign currency, for example US government bonds or Continental European company shares. These assets will generally be priced in the currency of the country of origin – US government bonds will generally be denominated in US dollars and Continental European company shares will generally be priced in euros. UK investors – whose investment portfolios will usually be priced in sterling – therefore need to be aware that the value of the foreign assets that they own will depend not only on the price movements of the assets themselves in the local foreign currency but also on the movements of the exchange rate of the currencies against sterling. This can mean that investments denominated in foreign currency can be more volatile than those denominated in sterling. Movements in exchange rates may cause the value of an investment to fluctuate either in a favourable or unfavourable manner and also independently of the value of the underlying asset.

Liquidity risk

The investment term 'liquidity' essentially means the ease with which an investment can be bought and sold. For example, the shares of large companies in developed countries such as the UK have a relatively high level of liquidity – there are typically a large number of buyers and sellers in these markets and these shares can usually be bought and sold readily. They can therefore be said to have a low level of liquidity risk – should you want to 'cash in' the investment held in the shares of a large UK company you will generally be able to do so easily and relatively quickly. On the other hand, there are a number of assets which can be described as having a relatively high level of liquidity risk. These could include the shares of very small, relatively unknown companies where there is a narrow market for the shares (i.e. a relatively small number of potential buyers and sellers) and they are therefore infrequently traded. An investor who owns such 'illiquid' shares and wants to sell them may find that it takes a considerable amount of time to find a buyer, or that they will need to reduce the price they are prepared to sell the shares for in order to sell them quickly. It is this latter point particularly that you should be aware of when considering investing in relatively illiquid assets – it can sometimes prove difficult to sell these investments in a timely way and there may be a significant risk of capital loss. In extreme cases an investment may become 'non-readily realisable'. In this case the investment may not be easily tradable, and it may be difficult to obtain any reliable independent information about the value and risks associated with such an investment.

Leverage/gearing risk

Collective funds (such as investment trusts) and companies may make use of borrowing in order to enhance returns. This is known as leverage or gearing and increases both the volatility and the risk level of an investment. It applies if a company has borrowed

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significant amounts of money, or if an investment vehicle (such as an investment trust) otherwise allows an investor to gain much greater exposure to an asset than is paid for at the point of sale (i.e. money is borrowed to obtain the increased exposure to that asset). It also applies if an investor borrows money for the specific purpose of investing.

The impact of leverage can mean that movements in the price of an investment lead to much greater volatility in the value of the leveraged position, and this could lead to sudden and large rises and falls in value. The impact of interest costs from borrowing may also lead to an increase in any rate of return required to break even while there is also a risk that the investor may receive nothing back once the leverage is repaid if there are significantly large falls in the value of the investment.

Stabilisation

This activity enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Stabilisation can help to counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found due to the excess supply of shares. Stabilisation is carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilisation manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise have been during the period of stabilisation.

Settlement risk

This is the risk that one counterparty to a transaction does not deliver a security or its value in cash as agreed when the security was traded after the counterparty has delivered either the cash or security as per the trade agreement.

Legal risk

We instruct various agents and third parties to provide us with a service or product to enable us to administer your account such as a market counterparty to buy or sell a stock in the market. Another example is client money held by a bank instructed by us. We take great care in selecting reputable agents and third parties, however, should they default or be unable to perform their obligations by reason of any cause beyond our control, this may mean that you will bear the loss of the default to your account or change to our service. Your investments will be pooled with investments owned by other clients, therefore your individual investments are not separately identifiable. Stocks are regularly reconciled but in the unlikely event that there is an irreconcilable shortfall, you may not receive your full entitlement and share in the shortfall in proportion to your holding. The majority of our clients' pooled investments in the UK are held by one of our wholly-owned nominee companies for which we would be responsible if it acted wrongly.

There is an additional risk of investing in overseas stocks as they are held by an overseas custodian or sub-custodian which may be pooled and subject to different rules and laws governing investment. We take care in appointing the custodian and perform periodic reviews on the custodian but should it become insolvent, this may cause delay in settling a transaction or transferring investments or worse, a loss to your investment. Unless we have been negligent in appointing the custodian, we will not be responsible for the custodian's insolvency.

Investment-specific risks

In the following, we look at the various asset classes and the investment risks that are specific to each.

Equities

Company shares – attributes

Equities or company shares – and collective funds that invest in them – are commonly used by investors seeking longer-term capital growth.

- Each company share represents a stake in the ownership of that firm. In most cases, the company will be listed on a stock exchange (such as the London Stock Exchange)
- Most large company shares can be readily bought and sold under most market conditions They entitle the shareholder to the payment of dividends – a regular payment made out of the company's profits
- Although a company is not obliged to pay a dividend its management can be held accountable by shareholders if they do not provide a reasonable return
- Over the longer-term company shares have historically provided a reasonable return together with a degree of inflation protection. Although past performance is not a guide to future performance.

Specific risks

- Returns on company shares cannot be guaranteed. The price of a company's shares can go up and down and you may get back less than you originally invested
- The price variability of international shares denominated in a currency other than sterling may be higher or lower than that of UK shares once foreign currency exchange rates are taken into account
- As ownership of an equity represents a direct stake in the company concerned this will give you full exposure to the economic risks faced by the company and its value can therefore fall as well as rise. The price volatility of equity markets can change quickly and cannot be assumed to follow historic trends
- In times of particularly difficult market conditions, there is the potential to suffer irrecoverable capital losses. In the worst case, a company could fail and, if this happens, its equity can become worthless.

Examples of typical company characteristics which could mean a heightened level of equity investment risk are:

- The company's market value is relatively low (otherwise known as the 'market capitalisation')
- The products that the company offers are undiversified (i.e. it relies on one or a few product lines or services for the bulk of its profits) or the company relies on a single market as a major source of income
- A significant reliance on borrowing as a source of finance
- A significant level of up-front fixed costs to pay (for example, payments for the leasing of business premises) which are not directly related to the company's level of production
- Major income sources which are seasonal or 'cyclical' (i.e. they vary according to prevailing economic conditions) in nature
- Companies trading primarily in developing countries, particularly during poor market conditions, or in countries where legal property rights may be difficult to enforce.

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Most shares that we would buy for you can be readily bought and sold under most market conditions, although this might not always be the case with shares from some very small companies. The shares of some smaller companies may trade in very low volumes, and an investment in these kinds of shares will usually involve a proportionately large difference between the market buying and selling price. This could mean that a purchase of shares of this kind followed by an immediate sale may lead to a significant loss. Some smaller companies may not be subject to the rules of a listing authority (for example, the London Stock Exchange). Such companies are likely to be higher-risk ventures and may have an unproven trading history or management team. These shares may not be readily sold, and it could be difficult to value them independently as they are not easily tradable.

Overall, the risks involved in investing in company shares can often be managed by using collective funds (such as unit trusts and investment trusts) which have a diversified portfolio of holdings or by investing directly in a wide range of shares which give exposure to a variety of industries, countries and currencies.

Collective investment schemes – attributes

A collective investment scheme is a form of investment fund that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments – typically company shares and fixed income investments.

- Collective funds are an easy way for investors to obtain diversity in a portfolio or exposure to a particular sector
- A reduction in risk is achieved because the wide range of investments in a collective investment scheme reduces the effect that any one investment can have on the overall performance of the portfolio
- By pooling the assets of many investors, collective funds offer 'economies of scale'. The collective fund will buy and sell investments in large amounts and the costs of this will be shared by all of the investors in the fund. The costs of investing would therefore usually be lower for each individual investor than if they were investing privately
- Investors may benefit from the skills, experience and resources a professional management company can offer
- Collective investments may be more expensive due to additional fund management fees.

Specific risks

- The price of a collective investment scheme is determined by the price of the underlying assets of the fund. Therefore the price of a fund may rise or fall in line with the underlying rise or fall of underlying asset values
- Returns on company shares, and therefore the investment funds that invest in them, are not guaranteed
- As with company shares, in times of particularly difficult market conditions, there is the potential to suffer irrecoverable capital losses
- Some collective investments may be in unquoted investments or property and therefore potentially higher risk and illiquid and therefore not easily realisable
- There may be exposure to foreign currency fluctuations which could amplify losses that may be incurred on typical investments.

As the underlying components of collective investment schemes are chiefly company shares and fixed income investments, please see these sections for fuller explanations of their attributes and the associated risks to which you may be exposed.

Investment trusts – attributes

Investment trusts (specialist companies set up for the purpose of investment that are listed on a stock exchange) are a type of collective fund – an equity investment that pools money from many different investors.

- Investment trusts are known as 'closed ended' – that is, they have a set number of shares that can be traded on a stock exchange (although investment trusts do occasionally issue more shares or buy some of their shares back)
- The share price of an investment trust is determined by supply and demand for the shares and can be higher or lower than the value per share of the underlying assets (this is called the 'net asset value' or NAV). When the share price is higher than the NAV, the investment trust will be trading at a 'premium' but when the share price is lower than the NAV it will be trading at a discount. The concept of investment trust discounts and premiums is a key risk for investors to be aware of – it is important that you refer to the specific risks set out below for further information
- Investment trusts can make use of borrowing in order to enhance returns (known as 'leverage' or 'gearing') or may invest in other companies that may use gearing.

Specific risks

- While gearing can potentially produce stronger investment returns if used successfully it also increases both the volatility (a measure of the relative rate at which the price of a particular investment moves up and down) and the overall risk level of an investment in investment trust shares
- As a result, movements in the value of the leveraged position (the investments purchased using the borrowed funds) may be more volatile than the movements in the price of the underlying investment. The value of the leveraged position may be subject to sudden and large falls in value and you may get back nothing at all if the fall in value is sufficiently large
- Investing in the shares of an investment trust is subject to similar risks to investing in company shares, although the share price can also be impacted by the performance of the underlying investments
- While the share price of an investment trust may be influenced by the performance of the underlying investments and thus the NAV, there is no guarantee that a discount will close or that an investment trust will move to a premium even if the underlying investments are performing well.

Structured products – attributes

A structured product is the generic term for manufactured investment products used by investors to provide exposure to a wide range of underlying asset classes (for example, equities).

- Generally they have a limited lifespan and a maturity date
- It is important that an investor in a structured product understands both the nature of the underlying assets and the extent of the exposure to those assets. In some cases, structured products may offer a high income or a high level of access to the capital growth of the underlying assets

- Structured products are generally issued by investment banks. The solvency of these institutions is crucial for not only the investment return but also for the ability of investors to buy and sell structured products (i.e. their 'liquidity')
- The level of income and/or capital growth provided by a structured product is usually linked in some way to the performance of a specified underlying asset class. Some structure products aim to at least return the initial capital invested at the end of the term
- Structured products can also come in the form of credit-linked notes, where product performance is linked to a fixed income index or a particular bond. This type of product is more likely to behave like an ordinary bond that pays a regular coupon and so should be categorised in the fixed income asset class. However, structured product returns are never guaranteed
- The investment return (i.e. the level of income and/or capital growth) is usually linked in some way to the performance of the relevant underlying assets
- Structured products can be complex – supported by our Research Team, we will examine closely the precise details of an individual product before investing.

Specific risks

- You should be aware that the return of capital invested at the end of the investment period is not guaranteed, and therefore you may get back less than was originally invested
- Structured products can expose you to a range of different investment risks. We will monitor these risks and associated risks on an ongoing basis. This is crucial as the risk of structured products evolves as time passes
- Structured capital-at-risk products (known as SCARPs) aim to return the original money invested at the end of the term unless the index or asset price to which the product is linked has fallen below a predetermined threshold. If this happens you can quickly lose all or part of the original capital invested
- Prices can fluctuate below the level at which originally invested, due to market forces such as interest rates. If the product is sold before its maturity date the return may be less than invested, irrespective of the performance of the underlying asset
- Structured products will not necessarily outperform the underlying asset to which they are linked
- In a similar way to bonds and debt instruments, most structured product strategies are exposed to the credit risk of the product issuer, meaning that investments could be entirely lost if the issuer is not able to repay the sums due under the terms of the product
- Structured products generally include leverage (i.e. borrowing), and their value can be subject to sudden and large falls if conditions arise which mean that the product is unable to repay the full amount invested
- Investors should review detailed product information and other literature carefully for details of any factors which might impact how the payout from a structured product may change under different economic or market conditions. In particular, where a product aims to repay the amount invested, which is subject to certain conditions being met, the value of an investment will be exposed to the full risk of the underlying assets if these conditions are not met
- It is important to be aware that the product terms for a structured product will only apply to investors who invest at launch and who hold the product until final maturity. Early redemption or purchase after launch could result in a capital loss, even where the product aims to return the amount purchased. These products may also not be readily realisable, which means that it may be difficult to sell a product of this type
- Investors should only invest in structured capital at risk products if they are prepared to accept the risk of sustaining a total or substantial loss of the money they have invested, plus any commission or other transaction charges. Furthermore, some structured products may not be covered by the Financial Services Compensation Scheme or the Financial Ombudsman Service
- The payoff of a structured product can be linked to the performance of any asset class such as equities, fixed income or commodities. The type of asset will largely determine the risk/return profile of the structure. If the product performance is linked to an equity index such as the FTSE 100 then the structure will exhibit equity-like risk-return characteristics and so it should be allocated to the equity asset class. Some structured products with partial capital protection may be linked to more than one asset class at the same time. An example of this would be a 'geared supertracker' where the product performance is linked to the gold price while the capital protection is linked to an equity index.

Fixed income bonds and bond funds – attributes

A fixed income investment is a security that pays a known return, often with lower risk than equities. Bonds are the most common form of fixed income security – these are loans mainly issued by governments, companies or other organisations.

- The bond issuer promises to repay the amount borrowed at the end of the bond's life and also promises to make predetermined interest payments during the life of the bond
- There are various types, ranging from bonds issued by robust governments/countries, where the risk that an investor will not be repaid tends to be very low, to corporate bonds (bonds issued by companies) where the risk is generally higher
- Government bonds can generally be bought and sold easily while corporate bonds vary more in terms of the ease with which they can be traded
- The price of bonds often moves inversely to changes in cash interest rates.

Specific risks

- Bonds issued by major governments (e.g. UK government bonds, often referred to as 'gilts') or supranational bodies (for example, the European Investment Bank) tend to be lower-risk investments
- The risks of other types of bonds (such as those issued by developing countries or individual companies) can vary greatly
- For example, if an issuer is in financial difficulty, there is an increased risk that they may be unable to meet the payments to bondholders that they are due to make. In this event, little or no capital may be recovered and any amounts repaid may take a significant amount of time to obtain
- The payments received from bonds are typically fixed (hence the term 'Fixed Income') which means that inflation can erode their 'real' value to some extent.

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The value of bonds can generally be expected to be more stable than that of company shares. However, in some circumstances the value of most bonds can also be volatile and prices can go up or down. The factors which are likely to have an impact on the value of a bond are:

- The financial position of the bond issuer
- Changes to market interest rate expectations
- The bond issuer's credit rating (which reflects their ability to repay the amounts payable when they fall due)
- The amount of interest payable (otherwise known as the 'coupon')
- The length of time until the debt falls due for repayment
- Where the bond ranks in terms of the issuer's other liabilities (referred to as the 'seniority'), and the quality of any security available. Should a company be wound up, bonds rank above equities in terms of claims on the company's assets and are therefore less risky.

Government bond investments can generally be sold easily to release funds if required. Corporate bond investments (loans to companies) vary more in terms of the ease with which they can be bought or sold. Holding bonds in an investment portfolio can partially reduce the level of risk in a portfolio as bonds often make gains when company share prices fall. However, the price of bonds often moves inversely to changes in cash interest rates.

Cash – attributes

The main form of cash for investment purposes is savings or deposit accounts which generally (but not always) pay interest on the amount deposited.

- Our investment managers will generally hold a certain amount of cash in a portfolio to enable them to take advantage of investment opportunities as and when they arise
- Cash is also used to reduce the volatility of a portfolio and this can be of particular use in terms of helping to protect its value during periods of falling markets.

Specific risks

- Broadly speaking, cash has virtually no short-term risk of capital loss (other than due to a default by the institution taking the cash deposit) and can be readily accessed (e.g. an instant access deposit account will allow you to withdraw cash whenever you want to)
- However, cash frequently provides a return that is below the prevailing rate of inflation – particularly in recent years as interest rates have been at historically low levels – meaning that the 'real' value, i.e. buying power, of cash is eroded over time.

Alternative investments

'Alternative investments' are a range of assets which have different characteristics from equities, bonds and cash and may be used by our investment managers for diversification and risk management purposes. Diversifying through alternative investments may be used to further mitigate against the investment risks within a portfolio.

These investments may involve unique or unusual risks as a result of providing alternative sources of return for a portfolio. It is important that investors understand the properties of the particular type of assets they are planning to use before making such an investment. Many alternative investments are structured as unregulated funds. This means that standards of operation, administration and management are determined privately by the operator of the fund, rather than being driven by regulation. It is important to understand that it may be difficult to sell an investment of this type, or to obtain an independently determined fair valuation for a holding in this kind of investment.

In addition, investors may not be protected by financial regulations or compensation schemes in the event that a company operating an alternative investment scheme acts unlawfully and causes a loss to investors when managing fund assets. Such risks can be mitigated by conducting thorough research prior to investment, or through investment via a professionally managed fund of funds.

You should only invest in these products if you are prepared to sustain a total or substantial loss of the money invested, plus any commission or other transaction charges. The term 'alternative investments' covers a very wide range of investment products – the attributes and risks specific to the most widely used categories of these products are set out here.

Absolute Return – attributes

Absolute Return funds aim to deliver positive returns in any market condition, but returns are not guaranteed. Absolute Return is a very broad category that encompasses most asset classes and investment techniques.

- An Absolute Return fund may invest in any asset class such as equities, bonds, currencies, commodities or derivatives
- Absolute Return funds employ various investment strategies, many of which are similar to the strategies employed by hedge funds. Below are some examples:
  - Short selling – selling securities and buying them back at a later date if a security price is expected to fall
  - Relative value trades – selling one security whilst simultaneously buying another one with similar characteristics
  - Trend/Momentum trades – buying or selling securities based on their recent performance
  - Curve/Duration trades – buying or selling bonds with different maturities according to portfolio managers' interest rate expectations
  - Absolute Return funds can be complex – supported by our Research Team, we will examine the details of individual funds to try and reduce the risk of investing.

Specific risks

- Although Absolute Return funds aim to achieve positive returns, this objective is not guaranteed
- Absolute Return funds often invest in derivatives which can have additional risks associated with them
- Selling assets ('going short') exposes the investors to a higher level of risk than buying securities. This is because the losses are potentially unlimited as the price of sold securities can go up perpetually. Additionally there is a regulatory risk, e.g. the Financial Conduct Authority (FCA) may place a ban on short sales
- Absolute Return funds may employ leverage either through borrowing or through derivative positions. Whilst it can enhance the potential returns it also exaggerates potential losses
- Often Absolute Return funds take positions in exotic or thinly traded assets to earn extra returns from holding illiquid assets.

Property – attributes

The main type of property that is typically purchased for investment portfolios is commercial property – this encompasses shops, offices and other types of business premises and is usually acquired via units in a property fund.

- Investment in commercial property entitles the holder to rents paid by the tenant as well as the disposal proceeds if property is sold
- Over longer periods the capital growth and income returns it can generate have historically provided a level of protection against inflation. Although past performance is not a guide to future performance.

Specific risks

- The rental income from and value of a given property will be impacted by demand, although it is important to emphasise that property can be difficult to value independently. There is no guarantee that the underlying properties invested in by a property fund will remain occupied and they may incur significant maintenance or restoration costs which could impact on the returns available. All property is subject to local risks which may be unique in nature and may be caused by factors such as prevailing legal, economic, environmental or political circumstances
- One of the key risks of investing in property is that it is the least 'liquid' of the main asset types – that is to say the relatively long time it can take to buy and sell property means that direct investment in this asset class will generally not offer quick access to your money if you want to sell. In weak market conditions it may prove more difficult to sell a property
- Our investment managers use specialist property collective investment schemes (funds) such as Real Estate Investment Trusts (REITs) or Property Authorised Investment Funds (PAIFs) that invest in property, meaning they can usually sell holdings on any working day. However, there have historically been a few examples of funds having to suspend investors' rights to withdraw money, sometimes for a substantial period of time, in order to balance the interests of investors exiting a property fund with those staying in the fund
- These delays can be up to six months in duration in the case of funds which invest directly or indirectly in buildings or land
- Investment in property development funds carries additional risks related to the successful completion of the development project both on time and according to budget. Even if a project is successfully completed, there is no guarantee that properties will either be sold or become occupied with tenants at the intended price or within the intended timeframe
- Commercial property is also subject to risks related to the type of use associated with the property, and the prosperity of the local or national economy relevant to the tenants and their business. Returns available from property funds may also be affected by leverage where borrowing is used to finance either construction or purchase.

Hedge funds – attributes

Hedge funds are pooled investments which, in contrast to conventional collective funds, will use a wide variety of different trading strategies in order to produce returns.

- One example of this is 'short selling' – an investment technique that enables a fund to potentially benefit from falling share prices
- The type of strategies and investments used by a hedge fund will be a key determinant of how risky the investment will be
- Our investment managers may use absolute return funds and funds of hedge funds in client portfolios (these offer diversified exposure to a range of types of hedge fund and are managed by specialists dedicated to hedge fund analysis).

Specific risks

- Strategies may range from lower-risk funds which aim to deliver a positive return regardless of market conditions (known as 'absolute return funds') to high-risk or speculative funds which make use of borrowing (or 'leverage') in an attempt to maximise returns
- While this borrowing will serve to magnify positive returns it will also make losses larger than they would have been had the borrowed money not been invested
- Investments made by hedge funds may also be narrowly based around a specific type of asset or trading strategy and the returns experienced by investors in these funds may be adversely affected by very specific market or industry circumstances. It is therefore important to understand the type of strategy and investment to be used
- Potential for high volatility
- Returns on hedge funds are not guaranteed, you may get back less than you invested.

Infrastructure – attributes

The term infrastructure refers to investment in vital economic assets including roads, railways, airports, oil and gas storage and transportation facilities, marine ports and electricity and water utilities.

- Investing in infrastructure offers the potential for capital growth as well as a degree of protection from inflation – broadly speaking, infrastructure investments tend to generate relatively stable levels of income (although this cannot be guaranteed).

Specific risks

- A key risk to investing in this sector is that companies involved in infrastructure-related industries are subject to environmental considerations and government regulation, which may impact on returns to investors.

Commodities-linked products – attributes

This broad term refers to natural resources that are either mined, extracted or harvested. Commodities encompass energy (i.e. oil, coal and natural gas), 'soft' commodities (i.e. agricultural goods such as coffee and wheat), 'hard' commodities (i.e. industrial metals such as copper and tin) and precious metals such as gold.

- A key reason for investing in commodities is that it can offer some protection from inflation. Virtually everything that is produced, bought and sold makes either a direct or indirect use of commodities of one form or another so a general rise in prices is likely to be associated with a rise in the price of at least some key commodities. Therefore, getting exposure to commodities should in theory help to maintain the purchasing power of an investment portfolio

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- Investment in commodities (including precious metals) is often achieved either via a structured product based on a commodities index or basket of different commodities, or by using a commodity derivative (a financial contract which derives its value from the performance of an underlying asset or market index), or by the use of an Exchange-Traded Fund (ETF) which aims to track the price of the commodity itself
- Precious metals have their own distinct characteristics and a key reason for using these in a portfolio (indirectly through an ETF) is that their value is generally not connected to the performance of the other more mainstream asset classes such as company shares or bonds
- In particular, gold and other precious metals are seen as more likely to hold or even increase their value during times of severe economic and social turbulence as theoretically investors will flock to them as 'safe havens' and this has proved to be the case on a number of occasions in history.

Specific risks

- A key risk to be aware of is that commodity prices can be extremely volatile – that is the price can change dramatically from month to month or over very short time periods
- They can also be very difficult to predict – commodities may be affected by a variety of political, economic, environmental and seasonal factors which impact on the demand for or the available supply of the given commodity. For example, the prices of agricultural goods will be impacted if severe weather events affect crop yields, while the price of oil has historically been strongly linked to global political events such as tensions in the Middle East.

Private Equity – attributes

This term refers to investment in companies that are not traded on a public stock exchange (for example, the London Stock Exchange), but can offer access to strong growth potential.

- These companies raise finance privately and are not subject to the stringent requirements faced by companies that do list on a stock exchange
- The type of unlisted companies that a private equity fund may invest in could range from small start-up companies to larger firms with a long and established trading history
- By definition private equity is not dealt on public stock exchanges and is therefore generally difficult to trade in. Our investment managers tend to access private equity through collective investments which are usually dealt on a daily basis.

Specific risks

- As private equity investments are not traded on public stock exchanges, there is a risk that they may prove difficult to sell as it may take time to find a buyer – i.e. they can be significantly less 'liquid' than other investments
- This may also affect the price at which the investment can be sold (i.e. you may have to accept a price that is lower than fair value in order to achieve a sale)
- A further risk is that as private companies do not have to meet the requirements of a company that lists on a stock exchange, there is a risk of a lower level of scrutiny of the management of these companies. As a result, the management may be less accountable to shareholders for decisions that they make than the management teams of public companies
- One of the features of private equity fund investment is a concept called 'capital commitment'. This is an agreement between an investor and a private equity fund under which the investor is obliged to contribute money to the fund. The investor may pay all of the committed capital at one time or over a period of time (known as the 'capital commitment period'). Investors must therefore be capable of making payments to satisfy the requests for capital made throughout the commitment period
- Private equity investment may involve a focused portfolio of investments, which could lead to exposure to undiversified underlying assets. It may also involve the use of significant leverage or borrowing, which amplifies potential risks
- Payments to investors from private equity funds are generally made in cash. However, if a fund is unable to sell its interest in a private company, it may instead distribute holdings in these companies to investors in the fund.

Overall, it is important that you are familiar with the terms of, and risks associated with, any private equity fund that you invest in.

Other investment products and their risks

Derivatives for hedging and income enhancement – attributes

In some circumstances, derivatives (securities whose price is dependent upon or derived from one or more underlying assets – the derivative itself is a contract between two or more parties) may be used to offset certain risks that may exist in a portfolio. This is known as 'hedging'.

- For instance, a holding in a foreign company exposes an investor to the movements of the currency that the company is denominated in, as well as the economic risks of the company. It is possible to offset some of the currency risk by purchasing an appropriate derivative contract
- Similarly, derivative contracts which aim to cover risks associated with interest rate movements, company defaults or falls in equity values can also be purchased.

Specific risks

- The cost of the derivative contract may lower the returns that a portfolio might have otherwise earned if the risk was left 'unhedged'
- The derivative contract may not perfectly offset the risk that it is intended to offset
- The counterparty which issues the derivative may default and not be able to honour the contract
- The price of a derivative can move independently of underlying assets
- The use of derivatives may amplify losses.

In some instances derivatives may be used to enhance the income of a portfolio and the same risks are applicable.

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Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs) – attributes

ETFs and ETNs are exchange traded funds which try to match a specified benchmark index. There are a number of different structures that are used to create these funds.

Specific risks

- The risks that an investor is exposed to depend partly on the structure of the fund and partly on the index that the fund is designed to track
- If the benchmark index is an equity index then an investor is exposed to the same risks as those for equity funds. Similarly, if the benchmark index is a bond index then an investor is exposed to the same risks as those for bond funds
- The benchmark index could instead be related to commodities or some other index which may have its own idiosyncratic risks
- Further to the risks inherent in the benchmark, the structure of the ETF or ETN may give rise to the following risks:
  - A fund may not fully replicate the benchmark index and may therefore not produce the intended results
  - The fund may engage in securities lending. Securities lending involves the risk that the fund may lose money because the borrower of the loaned securities fails to return them in a timely manner or at all
  - Where a fund uses derivatives to recreate the benchmark index returns, there is a risk that the counterparty which issues the derivative may default and not be able to honour the contract.

Non-Mainstream Pooled Investments (NMPI) – attributes

Non Mainstream Pooled Investments (NMPIs) are pooled investments or funds, which are characterised by unusual, speculative or complex assets, product structures, investment strategies and/or terms and features.

- NMPIs are a particular type of pooled investment vehicle and are generally regarded as high-risk products that often invest in assets which are typically not traded in established markets and which are therefore difficult to value and may be highly illiquid
- The investments are often complex and difficult to understand and performance information may be unavailable or unreliable
- NMPIs may invest in one or more volatile assets, such as property, emerging market stocks, renewable energy or fine wine, and therefore the risk of an investor losing all or part of their money are much higher than other investment types
- A NMPI encompasses:
  - Units in an Unregulated Collective Investment Scheme (UCIS)
  - Units in a Qualified Investor Scheme (QIS)
  - Securities issued by special purpose vehicles (SPVs) (other than excluded securities)
  - Traded life policy investments (TLPIs); and Rights to or interests in investments in any of the above.
- NMPIs are unlikely to be suitable for the average or ordinary retail investor; they are more likely to be appropriate for professional or institutional investors and to those clients who are sophisticated investors, and have significant investment experience of investing in these types of investments, and understand all the associated risks
- While our investment managers may make occasional use of UCIS in client portfolios, these are not a core investment type.

Specific risks

- High risk and illiquid
- A client investing in a NMPI could lose some or all of their investment
- Unlike regulated CIS, NMPI may not be subject to investment and borrowing restrictions aimed at ensuring a prudent spread of risk, therefore the risk of a total or partial loss of capital is much higher. As a result they are generally considered to be a high-risk investment and you should always ensure that you understand the risks before investing
- You may not be covered by the Financial Ombudsman Service (FOS), should you have a complaint about the fund, or the Financial Services Compensation Scheme (FSCS) should you need to seek compensation
- Some investments do not have cancellation rights
- UCIS are not regulated by the UK (or other) authorities and therefore do not provide the same protections as regulated investment funds. Furthermore, their holdings are difficult to value because of the lack of market pricing.

Life assurance products – attributes

Life assurance bonds (or life bonds) are a form of insurance contract which provide both an element of insurance in the case of the death of the covered person or persons in addition to having an ongoing value as an investment (as opposed to expiring worthless at the end of a defined period or term).

- Life bonds are issued by insurance companies, and an investment will be subject to the ability of the insurance company to repay the sums owing to an investor when they fall due for payment
- This means that the creditworthiness of the insurance company is important, much in the same way as for any other bond
- Life offices generally maintain a range of funds with different asset allocations and market exposure.

Specific risks

- In some cases, the returns available from a life bond are linked directly to a specific pool of assets held by the insurance company
- In other cases, the returns could be linked more generally to the profits of the insurance company in general, which reduces the overall transparency of returns.

If you wish to invest in a life bond, you will be presented with specific information about the type of contract, its terms, charges and more general information about the insurer and its financial strength. Please refer to this information for specific details about the policy and a more detailed description of the investment risks.

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Warrants – attributes

A warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiry date.

- A relatively small movement in the price of the underlying security can result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant
- Warrants may appear in clients' portfolios after the process of an initial public offering of an investment trust as they are often issued with ordinary shares at the same time
- It is however, unlikely that an investment manager would include warrants in a client's portfolio unless they have a particularly aggressive growth mandate.

Specific risks

- The price of warrants can be volatile
- It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time – should the investor fail to exercise this right within the predetermined time-scale then the investment becomes worthless.

Warrants are usually only appropriate for clients with the willingness and ability to take a high degree of risk with their investments – you should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or transaction fees.

The value of investments and any income from them can fall and you may get back less than you invested.

No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us.

If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset.

Please note that this document was prepared as a general guide only and does not constitute tax or legal advice. While we believe it to be correct at the time of writing, Brewin Dolphin is not a tax adviser and tax law is subject to frequent change.

Tax treatment depends on your individual circumstances; therefore you should not rely on this information without seeking professional advice from a qualified tax adviser.

Past performance is not an indication of future performance. In this document performance is quoted before fees, charges, levies and taxes and these may have the effect of reducing the illustrated performance. All performance shown is based upon any income generated being re-invested, except for the Average Capital Return and Average Yield figures.

The expected returns shown are based on our long-term forecasts, for a mix of assets similar to a portfolio suitable for an investor aligned to the Risk Category indicated.

The data in our sample charts is based on reasonable assumptions which are in turn based on objective data. There are no guarantees that these levels of performance will be achieved, in which case any returns will differ from those illustrated.

The range of Alternative assets that can be used in client portfolios has changed over the years and prior to June 2005, the historic performance of the Alternatives asset class was wholly based upon the Property index shown on page 14. From June 2005, the historic performance of the Alternatives asset class has been based upon both the Property and Targeted Absolute Return indices, as shown on page 14. This change represents the broader range of alternative investment options that have become available to investors over time.

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Paper B
For decision

Finance, Administration & Resources Committee

Report from the working group on ethical investment policy

11th February 2020

MHT's investment policies were last updated in June 2018. The policies include the following wording on ethical investments:

> ***Ethical Considerations***
>
> *The Charity's assets should be invested in line with the long term interests of the charity. The Trustees do not wish to adopt an exclusionary policy, but individual investments may be excluded if perceived to conflict with the Charity's purpose i.e. conservation of the Malvern Hills.*

At the December 2019 meeting of the FAR Committee, a working group was set up to review this policy and decide whether to recommend any changes.

The working group, which comprised Martin Cordey, David Core, David Fellows, John Michael and John Watts met on 20th January 2020. The CEO, Finance & Administration Manager and Ian Burrows of Brewin Dolphin were in attendance.

Charity Commission guidance states that charity trustees can invest ethically, in a way that reflects the charity's values and ethos and is consistent with the charity's aims, but the trustees must be able to justify why such an approach would be in the charity's best interests. Reasons why an investment policy may be in the charity's best interests are given as:

1. A particular investment conflicts with the aims of the charity, or
2. A charity might lose supporters or beneficiaries if it does not invest ethically, or
3. There is no significant financial detriment.

This guidance was central to the discussions held at the meeting.

Approach to setting an ethical investment policy

Trustees typically take one of three approaches when setting an ethical investment policy:

1. Negative screening – in which investments in certain specified areas are excluded from the investment portfolio, e.g. tobacco companies,
2. Positive screening – in which investments are made in companies which positively impact on specific areas, e.g. climate change,
3. Engagement – using the charity's power as a shareholder to advocate for change within companies.

After discussion the working group agreed that a negative screening approach was appropriate to MHT.

Areas to be covered by the policy

Ethical investment policies can cover environmental, social and governance factors (known as ESG).

The working group discussed which of these areas MHT's policy should cover. It was agreed that in order for the policy to be consistent with the aims of MHT, the policy should cover environmental issues.

The working group acknowledged the importance of social and governance issues and noted that Brewin Dolphin's policy of compliance with the United Nations Principles of Responsible Investment demonstrates a commitment to responsible investment. This forms a foundation level to our ethical investment policy, to be highlighted if MHT was questioned about social and governance issues.

It was agreed that to exclude investments in quarrying, fracking and mining companies would be consistent with the aims of MHT.

The impact of climate change on the land managed by MHT is less clear, but it was agreed there is a real prospect of damage to some areas of our land from long term effects of global warming. For example, a 2-3 degree increase in temperature would have a significant impact on the species mix found in upland grassland.

MHT is sometimes criticised for not planting more trees to help combat climate change. However it is not possible to plant on many areas of the hills without destroying the valuable non-woodland habitat in those areas. [See MHT position statement on climate change and tree planting for more information.]

The working group agreed that to adopt a policy of excluding investments in fossil fuel companies with the aim of countering climate change would be consistent with MHT's aims.

Exclusionary policy proposed

The working group had sight of the policies of some other charities. The National Trust has recently adopted an exclusionary policy on climate change, and the working group felt this was a good basis for MHT's policy.

Malvern Hills Trust exists to protect the Malvern Hills and commons. Climate change poses a threat to the unique environment we care for. For that reason, we have decided to propose a change the charity's investment policy and aim to stop investment in fossil fuel and quarrying companies by 31st March 2021.

The policy should also have the capacity to exclude any other individual investments which are perceived to conflict with the charity's purpose.

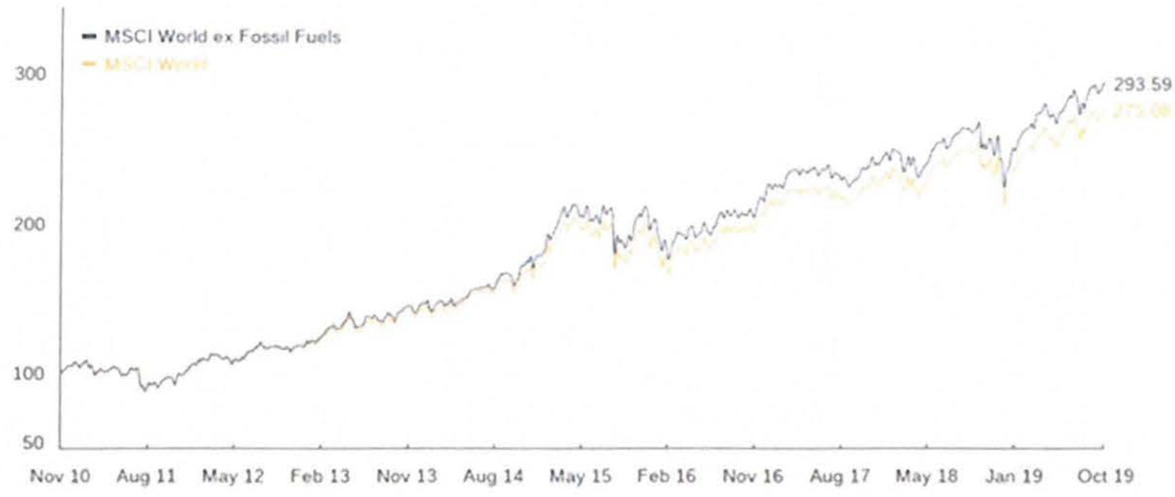
Financial detriment

The working group looked at the potential financial detriment to the portfolio arising from this policy. There a currently 4 investments (BP, Royal Dutch Shell, BHP Group and Rio Tinto) which will need to be sold, which account for around 4% of the portfolio value.

The impact on future investment returns cannot be known accurately, but the working group felt these investments form such a small part of the portfolio their removal would not significantly impact on future returns. Returns from alternative investments could reasonably be expected to match those on the excluded securities.

Brewin Dolphin has provided the following table showing historic returns, which shows that the return in the period November 2010 to October 2019 on the world stockmarket index excluding fossil fuels has outperformed the whole index (past performance of course is not a guarantee of the future):

CUMULATIVE INDEX PERFORMANCE - GROSS RETURNS (EUR) (NOV 2010 - OCT 2019)



Review period

If the new policy is approved, the working group recommends a further review in April 2021.

(A group of charities wrote to the Charity Commission in March 2019 seeking clarification on their legal responsibilities when it comes to aligning their investments with their charitable objectives. Supported by the law firm BWB, they have requested that this be referred to the Charity Tribunal. The date for resolution is not known, but when it is reached MHT will need to carry out a further review).

Recommendation

That the FAR Committee recommend the Board updates the investment policies for both the Lands Acquisition and Parliamentary/Lands Maintenance fund portfolios to include the following statement on ethical considerations:

> Malvern Hills Trust exists to protect the Malvern Hills and commons. Climate change poses a threat to the unique environment we care for. The Trust will therefore exclude any fossil fuel and quarrying companies from its investment portfolio by 31st March 2021.
>
> The policy will also exclude individual investments which are perceived to conflict with the charity's purpose.

Cheryl Gentry
Finance & Administration Manager
27th January 2020

Paper C
For information

Finance, Administration & Resources Committee

Worcestershire Pension Scheme – 2019 valuation

21st January 2020

Since the last meeting of this committee, I have been in discussion with staff at the Worcestershire pension scheme (WPS) to assist with their covenant appraisal and agree final contribution levels for the next 3 years. WPS's calculations are based on the results of the 2019 Actuarial valuation of the scheme.

Background and membership information

MHT closed membership of the WPS to new joiners in July 2016. MHT's current membership of WPS includes the following:

Active members (employees who currently work for MHT)	12
Deferred members (who have left MHT and left their accumulated benefits in WPS)	15
Pensioners	14

Contributions

MHT's contributions to the scheme comprise 2 elements:

- Ongoing service contributions, as a percentage of salaries, paid to cover the future benefits of members,
- Deficit contributions, paid as a lump sum, to cover historic deficits in the fund.

As was reported in December 2019, WPS had reduced the deficit write off period from the 18 years set at the 2016 valuation to 9 years (we had anticipated a 3-year reduction to 15 years, as it was 3 years since the last valuation). Despite a reduction in the deficit, this had increased the deficit contributions significantly which would have been difficult for MHT to meet.

Since December, the following changes have been made:

1. When carrying out the valuation, WPS allocates employers to investment pots with varying degrees of risk. In the first draft report MHT had been allocated a high risk pot. As part of the covenant review with MHT, it was agreed that MHT be moved from the high risk investment pot to the medium risk.
2. The final figures have been calculated using estimated returns from this investment pot. Whilst the lower returns mean the 2019 deficit has increased from the first draft, it has allowed WPS to apply a 14-year write off period for MHT's accrued deficit, thereby reducing MHT's budgeted costs.
3. Allowance has also been made for the anticipated costs which will arise from the Sargeant and McCloud judgements, which will impact on other public sector schemes. (In April 2014 the LGPS introduced a new career average ['CARE'] scheme, with an underpin provided for members who were 10 years or less from their Normal Retirement Age on 1st April 2012. In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters [Sargeant case] and the judiciary [McCloud case] resulted in unlawful age discrimination.)

Final position at 31st March 2019

	2019		2016	
Deficit (excess of liabilities over assets)	£926,000		£1,092,000	
Funding level	69%		57%	
Future service rate (% of salaries)	21.40%		18.20%	
Future service rate - McCloud cost	0.40%		0	
Total future service rate	21.80%		18.20%	
Deficit contribution annual amount				
2020/21	£64,000		£72,000 in 2019/20	
2021/22	£66,000			
2022/23	£69,000			

The good news is the deficit has reduced and the funding level has improved since 2016.

However, the future service contribution rate has increased. This is because the 'discount rate', which is used to estimate liabilities, has been reduced from 2.15% to 1.4% for past liabilities and 2.75% to 2% for future liabilities. The valuation of liabilities is extremely sensitive to changes in the discount rate. A 1% move in the discount rate can change liabilities by 15-20 % (per the Actuary who advised MHT back in 2016).

The estimated costs for 2020/21 are summarised below, with 2019/20 as a comparison:

	2020/21	2019/20	
	£	£	
Future service contributions	57,000	47,500	
Deficit contributions	64,000	72,000	
Total WPS cost	121,000	119,500	

I will put a copy of the detailed WPS report on the Board area of MHT's website.

Cheryl Gentry
Finance & Administration Manager
27th January 2020

Background reading:

1. Board meeting 5th July 2016, report form Pensions Working Group (copy saved on Board Members' area of MHT website)
2. Report to FAR 8th August 2019 – LGPS/McCloud

Paper D
For decision

Finance, Administration & Resources Committee

Reserves policy – annual reassessment

11th February 2020

MHT's Reserves policy was reviewed in detail by a working group in May 2018. The working group followed the Charity Commission guidelines as set out in the publication CC19 – Charity reserves: building resilience.

The reasons for holding reserves depend on the activities carried out by the charity. In MHT's case, reserves are needed:

- To fund working capital. Levy payments from MHDC and some grant payments are received in arrears, so reserves are needed to fund expenditure incurred prior to receipt of the funds,
- To purchase vehicles and other equipment,
- To fund expenditure arising from unexpected events and
- To invest in future projects.

In setting MHT's reserves policy, the trustees followed the five steps recommended in CC19, which are:

1. Understanding the nature of the funds held,
2. Identifying functional assets,
3. Understanding the financial impact of risk,
4. Reviewing sources of income,
5. Impact of future plans and commitments.

MHT's reserves policy was updated in January 2019 and agreed as follows:

Malvern Hills Trust's (MHT's) reserves are defined as the total unrestricted funds, including 'free' designated funds, less fixed assets funded from the general fund and the defined benefit pension scheme deficit.

The level of reserves and cash balances are reviewed quarterly against the agreed policy. That policy is reassessed annually.

The level of reserves required will vary from time to time depending on MHT's overall financial position, the economic climate, the security of income from grants and other sources (in particular from parking revenue), the expected levels of planned expenditure and the risks of unplanned costs.

MHT's trustees' policy is to aim to maintain the total unrestricted reserves level above £250,000. This threshold has been set by the trustees taking into account the following factors:

- *The need to hold funds to maintain the viability of MHT in case of unexpected events leading to uninsured costs,*
- *The need to provide protection against the risk of a significant drop in grant or other income or unexpected delays in receipts,*
- *The need to provide working capital for MHT, both for day to day work and for future (possibly grant-funded) development,*
- *The need to provide a degree of protection against fluctuations in investment income.*

Annual reassessment

It is now time to carry out the annual reassessment.

The 'free' designated funds which have been included in the reserves calculation at 31st December 2019 are:

- Unrestricted gifts,
- Thirds Wood and Mountain Bike funds (both recommended to be transferred back to the General fund as work has been completed),
- Dog campaign fund,
- Tree disease fund and
- Fund raising fund.

These have been included on the basis that were it necessary, the trustees could decide to 'undesignate' these funds to be used for MHT's general charitable purposes.

The reserves at 31st December 2019 were £820,887 and the forecast reserves at the year-end are £640,000. The figure has been boosted by the receipt of a £270,000 legacy, for which plans are to be made. Deducting this leaves a balance of £370,000.

Recommendation

That the committee

1. Record that the assessment of the reserves position is satisfactory
2. Continue with the quarterly reporting and
3. Carry out the next annual assessment in February 2021.

Cheryl Gentry
Finance & Administration Manager
21st January 2020

Background reading
FAR Committee meeting 10th May 2018, paper B report from reserves working group.

(For the benefit of new trustees I have put a copy of the working group's report on the Board section of MHT's website.)

Paper E
For decision

Finance, Administration & Resources Committee

Management accounts for the 9 months ended 31st December 2019

11th February 2020

The management accounts for the 9 months ended 31st December 2019 are presented for the Committee's information.

General fund income and expenditure (page 1)

The General fund income & expenditure account for the 9 months to 31st December 2019 shows a surplus of £135,619 against a budgeted surplus of £100,046. Income was £10,882 lower than budget at £772,787. Expenditure was £46,447 below budget at £637,844 (budget £684,291).

Income

- The levy was received as budgeted.
- The grant received of £10,400 is the annual payment from Worcestershire County Council. The budget also included £10,000 for new, unrestricted grants.
- Car park takings were £13,593 over budget at £213,312.
- Income from donations, admin charges/compensation and sundry income were all below budget. These items are difficult to budget with any certainty.
- Profit on disposal of fixed assets arose from the disposal of a wood chipper.

Expenditure

- Land management expenses were £41,586 (budget £61,853).
    - Contract labour expenditure was £8,779 (budget £11,250) A number of projects are scheduled in the final quarter of the financial year.
    - Vehicle and equipment costs are currently £4,850 below budget. There are some servicing costs to come in the final quarter, but it is likely this budget will be underspent at the year end.
    - The favourable variance against the tree work budget is a timing difference, due to the need to get the Board's approval for additional tree work costs at the January 2020 meeting.
    - The favourable variance against Field Consultancies is a timing difference, as we are awaiting completion of the pond restoration works in February 2020.
- Visitor service expenses, comprising car park, wardens and PR expenses were £23,276 below budget at £15,249.
    - The budget for car park meter expenses assumed the new meters would be installed for a full year. The underspend has resulted from the delays in installation.
    - The underspend on the car park repairs is also a timing difference. Repairs at West of England and Beacon Road are planned in January 2020 (costing £3,300). Further works are also needed at Beacon Road (estimated cost £1-1.5K) which will be done before the year end.
    - Wardens' expenses are broadly in line with budget.

    - The budgets for leaflets is as yet unspent. As previously reported, we anticipate that £1,500 will be spent before the end of the financial year (reprinting the Walking & Cycling maps) but that the remainder of the budget will be unspent.

- Administration costs were £135,675 (budget £141,788).
    - The buildings maintenance budget included an allowance for the maintenance of the public conveniences on the Hills, but responsibility for this has not yet been transferred to MHT.
    - Expenditure on legal fees includes the £5,000 additional costs approved by the Board in April 2019. Total legal fees incurred to 31st December 2019 were £15,885, of which £9,241 arose from two issues raised by a member of the public.
    - Office equipment costs are below budget as we have been fortunate in not having too many repairs so far this year. There will be some additional expenditure in the final quarter, following the work station assessments recently carried out.
    - Board training costs were over budget at the quarter end and will increase in the final quarter, so the full-year budget will be exceeded. The FAR Committee is asked to approve an estimated overspend of up to £4,000 from its delegated budget (which has a £11,510 balance remaining for the 2019/20 financial year).
- Salaries and other staff costs were £445,334 (budget £442,125). There are no issues to be brought to the committee's attention.

Designated funds income and expenditure (part of unrestricted funds) – page 2

The income and expenditure for each of the designated funds is shown on page 2 of the figures.

- The legacy from the estate of Mr Stubbs totalled £292,000, which is in the unrestricted gift fund. A group has been set up to plan how best to use this gift.
- Work on Thirds Wood has now been completed, so this designated fund can be closed and the balance of £4,529 transferred back to the General fund.
- Expenditure of £15,382 has been incurred to date on the Charity Scheme consultation.
- Work on the Mountain Bike campaign has now been completed, so this designated fund can also be closed and the balance of £948 transferred back to the General fund.
- The election costs totalled £18,593. The balance of £2,492 on the fund can now be transferred back to the General fund.
- The RPA has made some payments in recent weeks, so the balance due from them at 31st December 2019 had reduced to £109,000. At the date of writing this report, the 2019 payments had been received for Southern Hills, Old Hills and Castlemorton. Annual payments for Chase End and North & Central Hills are being chased.

Restricted funds income and expenditure (page 3)

Income and expenditure on the restricted funds is shown on page 3 of the figures.

- £17,180 expenditure from the Parliamentary fund has been capitalised (on fencing and water troughs at the new land)

Cash flow for the 9 months to 31st December 2019

	£	£	
Net movement in funds		377,140	
Depreciation	92,736		
Profit on disposal of fixed assets	(1,950)		
		90,786	
Decrease in debtors	228,822		
Increase in creditors	(43,614)		
		185,208	
Net cash used in operating activities		653,134	
Cash flows from investments:			
Proceeds from sale of fixed assets	1,950		
Purchase of fixed assets	(90,428)		
Investment manager's fees deducted from portfolio	8,606		
Funds transferred from investment portfolio	2,899		
Net cash used in investing activities		(76,973)	
Net increase in cash		576,161	
Cash at beginning of period		485,056	
Cash at end of period		1,061,217	
Change in cash and cash equivalents in reporting period		576,161	

Cash flow has improved significantly in the period, thanks to the legacy received and payments made by the RPA under the Stewardship agreements. The new schedule of payment for the MHDC levy has also been very helpful (two 6-monthly payments in June and December).

Of the £576,000 balance, £368,000 was General fund cash, £49,000 restricted and £159,000 designated.

Fixed asset purchases and sales

Capital items purchased in the 9 month period were:

	Actual	Budget	
	£	£	
Brush cutter	658	2,000	
Landini Tractor	37,450	40,000	
Pay and display meters *	32,684	45,000	
2 desk top computers	2,455	2,000	
Water troughs new land	6,500	6,526	
Fencing - new land	10,680	10,000	
	90,427	105,526	
* £8,171 paid in 2018/19, total cost £40,855			

Paper E
For decision

Reserves at 31st December 2019

General fund			
	£	£	
General fund reserves per the accounts	446,701		
less NBV of General fund fixed assets	(118,822)		
		327,879	
Uncommitted designated funds:			
Gifts	464,211		
Thirds Wood	4,529		
Tree Disease	9,000		
Mountain Bike campaign	948		
Dog campaign	4,320		
Fundraising	10,000		
		493,008	
Total 31st December 2019		820,887	

Recommendations

1. That the following designated funds be closed and their balances transferred back to the General fund:
   a. Thirds Wood (balance £4,529),
   b. Mountain bike (MTB) fund (balance £948),
   c. Election expenses (balance £2,492),
2. That the FAR Committee approve additional expenditure on Trustee training up to a total of £4,000 (in addition to the £2,000 budgeted for the year)

Cheryl Gentry
Finance & Administration Manager
27th January 2020

Paper F
For information

Finance Administration and Resources Committee

Project Progress Summary

11th February 2020

Report Date 30/01/2020

KEY	ONGOING	COMPLETED	DELAYED	NEW 2019/20	BROUGHT FORWARD

Project	Approved Budget *Actual Cst*	Date Expctd (B. Plan)	2019/20 1st Q	2nd Q	3rd Q	4th Q	Update	Status
LMP Projects								
Restoration of access paths	£20,000 Gift Aid Grant	2017		Expected	Ongoing	Ongoing	2019 – Path resurface Gardners to Thirds Wood plus second section of contour path south.	COMPLETE
Install Cycle Waymarkers	£1,200	2017/8	Finished				Works completed	COMPLETE
Mountain Bike Campaign	£4,000 (General) *£3,052*	2016/18	Ongoing	Finish Expected			Works completed	COMPLETE
Bridleway Link Common	£2,500	2018/19		Expected	Ongoing	**Ongoing**	Central section resurfaced. Southern to do. Delayed by wet conditions	Ongoing
Improve Access Comm Wood	(Grant)	2018/19	Tender Process Open	Expected	~~Delayed~~	~~Delayed~~	Contractor Appointed. Works part complete. Delayed by wet conditions. Due April	Ongoing
Marking Boundary's	£1,250 (General)	2016 to 2020			Expected	Expected	Volunteer surveys carried out over winter months	Ongoing
British Camp Repairs	£4,000 (General)	2017/18	Ongoing	Expected			Structural works complete. Effectiveness being monitored	COMPLETE
Restore Shire Ditch	£3,000 (General)	2018/19 2020/21	~~Expected~~	~~Expected~~			Suspended pending evaluation of BC repair technique. SET BACK TO 2020	Delayed
Survey Vet.Trees	£1000	2018/19	Expected				Survey Completed.	COMPLETE
Pond Restore Castlemorton	Gift/grant	2019/20		Expected	Ongoing	**Ongoing**	Fencing complete. Plastic sheeting installation	Ongoing
Hedge laying	£5,000	2019/20			Expected	Expected		
Buildings and Infrastructure								
Manor House	£5,000 (Parl Fund)	2017/8		Expected	Expected	**Ongoing**	Revised outline costs being determined	Ongoing
Manor House Works	£50,000 (Parl Fund)	2018/19				~~Expected~~	Dependant on above Now to be split into two phases before and after Lower Shed works	Delayed
Top Shed Pit and storage	Est £12k	2017/8		Tenders out	Expected	Expected	Infill works completed by Wed 29th Jan.	COMPLETED

Lower Shed Review		2017/8			Ongoing	Ongoing	Detailed specifications in preparation for costing.	Ongoing
Donkey Shed Restoration	TBC	EXTRA	Ongoing	Ongoing	Ongoing	Ongoing	Cost estimates and funding being sought	Ongoing
BC & Wyche Toilets		2017/8		Expected	Expected	Expected	Renewal of cleaning and maintenance agreement.	Delayed
BC sewage system	TBC Est £40-50K	EXTRA			Delayed	Expected	New sewage treatment put out to tender. E.A. Licence clearance still awaited.	Delayed
Implement Building Maint. Sched	£3,000	2019/20	Expected	Expected			Electrical, Fire and Gas certificates all updated.	Ongoing
Belvedere Repair	£7,500 (Gift Fund)	2019/20		Expected	Expected		Works Completed	COMPLETE
Repairs to Old Hills South C P	£4,500 (Parl Fund)	2019/20	Ongoing	Expected	Expected		Works completed	COMPLETE
Repairs to B.C. path	£2,600	EXTRA		Complete	~~Expected~~	~~Expected~~	Patch filling to tarmac path to complete 23rd Sept.	COMPLETE
Resurfacing Gardiners	£1500 *£3240* (Parl Fund)	2016	Finished				Works completed	COMPLETE
N Malvern Wall repair	*£4,800 (Gen)*	EXTRA	Finished				Works completed	COMPLETE
Repainting lines	£1,000 (Parl)	2018/19		Expected	Expected	Expected	Dependant on Car Park repairs and winter wear.	
REBRANDING and SIGNAGE								
Update Interpretation Boards	£15,000 p/a (Gift Fund)	2017/20	Ongoing	Ongoing	Expected	Expected	Blackhill complete and installed Gardner's underway.	Ongoing
Update location signage	£7,000	2017/18	Expected	Ongoing	Expected	Expected	All complete other than West of England (underway) and Swinyard	Ongoing
Update Car Park signage	£3,000	2017/18	Expected	Ongoing	Expected	Expected	All complete other than West of England (underway) and Swinyard.	Ongoing
Update sign St Ann's well	£400	2017/8		Expected	Expected		Roof sign replaced. Cabinet signs to do	Ongoing
Replace Access Signs	£2,500	2018/19		Ongoing	Expected			Ongoing
CAPITAL ITEMS								
Car Park Ticketing	£41,000 *£40,085*	2017	Delayed	Expected			Installation and snagging complete. System fully commissioned.	Complete
Field Staff Pickup	£18,500 (General)	2018/19			~~Expected~~	~~Expected~~	Replacement of pick up if required. If not, carry over. Vehicle inspected. Condition good. Retain further year.	Set Back to 2020/21
New tractor	£40k *£37,450*		Delayed	Expected			Delivered first week August.	Complete
Power tools	£4,000	2018/19			Expected	Expected	Replacement chainsaws/ brush cutters.	Ongoing