

THE  
NATIONAL  
GALLERY

INVESTMENT  
RISK  
MANAGEMENT  
STATEMENT

## Investment Risk Management Statement March 2012

Policy owner: Head of Finance

The Gallery receives private funds through a number of sources, many of which are not immediately expendable. Where funds are not immediately expendable or required for working capital purposes in accordance with the reserves policy they are invested.

### Risks

The principal risks associated with investments include:

- Capital risk – the risk of loss of capital and of volatility;
- Liquidity risk – the risk that the Gallery will not be able to raise sufficient cash to meet its obligations;
- Market risk – the risk that investments will erode in value over time because they do not keep pace with inflation (i.e. inadequate total return);
- Interest rate risk – the risk that rates of interest become unattractive if fixed for long periods, or that the most favourable rate is not secured;
- Counterparty risk – the risk that a bank or investment manager defaults on its obligations;
- Fraud and financial loss;
- Non-compliance with legislation;
- Reputational damage arising from investment losses.

### Policy

#### 1. Scope of investment powers and power to delegate management of investments

The Trustees, in respect of their general funds, including assets given to them without restriction by donors or testators, rely for their investment powers on the general power in section 2(6) of the Museums and Galleries Act 1992, which permits them to do such things as they may think necessary or expedient for the purpose of fulfilling their functions under the Act. This implies a wide power of investment. In respect of general funds, the Board may delegate investment decisions to a committee of the Board, under the powers in the 1992 Act, but have no power to delegate investment decisions to third parties.

Funds held on trust ('trust funds') are governed by a Charities Act Scheme varied by resolution of the Board in March 2012 to provide wide powers of investment similar to those available under the Trustee Act 2000. In respect of these funds, the Board have a power to delegate investment decisions to a committee of the Board and also have an express power to delegate the management of investments to financial experts, subject to the restrictions laid out in the Scheme.

#### 2. Investment objectives

The Gallery's reserves policy sets out the level of general funds required to meet working capital needs and to provide a safeguard against volatile and unpredictable income streams. General funds should be held with a view to maximising return within the constraint of ensuring adequate liquidity to meet working capital needs.

Trust funds represent funds held on trust for particular purposes. Some trust funds are expendable within the short-term, but many are not immediately expendable and some are permanent endowments, where the capital cannot be spent. To the

extent that trust funds are not expendable over the medium term, these should be invested with a view to maximising long-term total return.

Trust funds that may be expended over the short to medium term should be invested with a view to maximising return whilst retaining appropriate levels of liquidity, subject to other constraints set out in this policy. Such trust funds should be separately identifiable from general funds.

### **3. Attitude to risk**

The Trustees recognise that risk is part of the investment process. Trust funds held for the long-term are invested with a view to maximising total return over time and Trustees accept the capital and market risks inherent in this type of investment. Capital and market risks are mitigated to some extent by diversification of investments, for example through the use of cash deposits for remaining funds.

All the Gallery's investments are held with institutions of the highest quality to combat counterparty risk. Funds may only be placed with a new institution with the approval of the Finance Committee.

### **4. Types of investment**

Suitable investments include equities, bonds and cash deposits. The Gallery will not usually hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such an instrument or where it is held as part of a defined investment strategy.

### **5. Investment management**

The Board delegates investment of trust funds to the Finance Committee. The Finance Committee monitors the performance of investments and ensures compliance with the investment policy. The Finance Committee considers the investment objectives annually and recommends any changes to the Board.

The Finance Committee is able to appoint investment managers, and where they choose to do so the performance of investment managers is reviewed at least annually and is reported to the Board.

Investments are measured against an appropriate benchmark. Equity investments should be measured against a suitable index. The return on cash deposits should be measured against the UK bank base rate. Performance against agreed benchmarks is reported in the Financial Statements.

## **Responsibilities**

The Board of Trustees is responsible for approving the Investment Policy, including investment objectives.

The Finance Committee is responsible for making investment decisions, monitoring the performance of investments and ensuring compliance with the Investment Policy. The Finance Committee is responsible for reviewing the Investment Policy, including investment objectives, annually and recommending appropriate changes to the Board. The Finance Committee is responsible for appointing investment managers, for reviewing the performance of investment managers, and for approving the investment

of funds with new institutions.

The Head of Finance is responsible for day to day treasury management and for reporting the performance of investments to the Finance Committee on a regular basis.