Investment policy

1. Statement of investment principles

Financial aims and objectives

1.1. Our investment policy follows from our financial strategy and our organisational strategy for 2020-2025. The goals of our financial strategy are to enable the investment we need to deliver our organisational strategy, while also achieving financial sustainability and value for money, for the benefit of registrants and the public, keeping registration fees affordable and stable over time. We will promote trust and confidence in our finances and the value for money we provide through transparency and integrity in our financial conduct.

1.2. Our investment policy supports the aim of financial sustainability. We expect that by investing in equities, funds and bonds, we will obtain an above-inflation return over the long term, and thereby avoid or mitigate the need to increase our fees. Therefore we expect that applying part of our cash and reserves in investments will benefit nurses, midwives and nursing associates in the long term.

1.3. The overarching objectives for our investments are set out below.

Primary

1.4. **Increase real value:** We aim to achieve long term financial sustainability so that our charitable objects can be delivered indefinitely. The primary objective of our investment policy is, therefore, to generate a total return (i.e. a combination of income and growth, net of fees) of 1% above the rate of inflation on a 5 year rolling basis.

1.5. **Liquidity and flexibility:** Being a large organisation with substantial operating costs, it is vital that our investment assets provide diversification, flexibility and liquidity to cater for possible changes in our situation and funding requirements.

Secondary

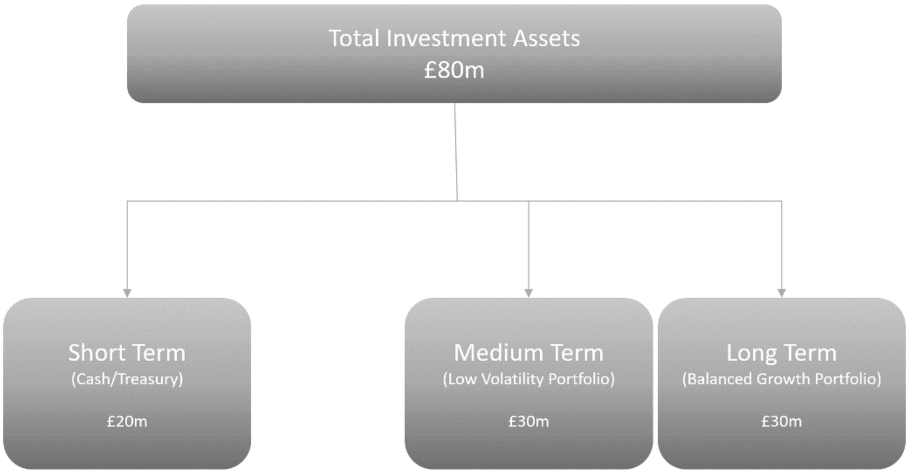
1.6. **Income generation:** Investment income represents a small proportion of our overall income, and while we would expect to generate some income from our investments, this should not be at the expense of our primary objectives.

Investment policy and liquidity management

1.7. For the purpose of our reserves policy, all investment portfolios will be treated as liquid and therefore part of free reserves.

Investment asset overview

1.8. Our investment assets will be broken down into three portfolios, as shown below[1][2]:



Short-term investment policy

1.9. The short-term investment policy is to hold for working capital purposes a portfolio of very low-risk, cash based investments in a target range of one to three months operating costs, the exact amount being decided on a tactical basis. In addition, the funds held in the short term portfolio need to be sufficient to cover planned capital expenditure within three years that will not be covered by fee income.

1.10. Further details can be found in section 2.

Medium-term investment policy

1.11. This portfolio has been put in place to fund planned expenditure in three or more years that will not be covered by fee income (such as future building renovation projects).

1.12. Further details can be found in section 3.

Long-term investment policy

1.13. Any capital not required for ongoing operational purposes or planned future projects is to be invested in the long-term portfolio. It is expected that this part of the portfolio will provide the greatest long-term protection against inflation.

1.14. It is accepted that these investments will rise and fall during the short term due to investment market volatility.

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[1] The value (as at December 2018) and allocation between the three portfolios are indicative only and will change over time, in line with our requirements.
[2] Note that for the purpose of the investment policy, short term means up to three years, medium term means three to five years, and long term means over five years.

Investment risk

1.15. Our overall appetite for investment risk is “**Cautious to Balanced”**, as described below:

“A Cautious to Balanced investor is looking for an investment which, while giving some potential for real returns, aims to produce returns that are at least as good as those from a high street deposit account. A high level of security of their capital is a priority. While recognising that investment values will change, they would feel uncomfortable if their investments rose and fell in value very quickly.”

1.16. It is accepted that certain elements of the investment portfolio will differ in risk level when viewed in isolation; however, we aim to ensure that the overall *blended* portfolio remains within this tolerance.

1.17. We understand that all investments carry some form of risk. While we prefer not to make any loss on investments we accept that there is always a possibility that losses may occur.

1.18. We have discussed our tolerance / capacity for loss and agreed that we want to avoid a drop of more than 10% in the nominal value of the overall portfolio over any 12-month period. We understand that there is always a possibility that this amount of loss could be exceeded, which must be considered when deciding on the allocation between the three portfolios.

Ethical and responsible investment

1.19. We seek a constructive and positive engagement with the corporate world. We require that our funds in the medium and long term portfolios are managed in line with our ethical investment policy set out in detail in section 5.

Monitoring and reviewing

1.20. It is important that we continue to monitor our investments to ensure they remain within our policy guidelines.

1.21. There will also be an ongoing requirement to review the valuations of the three portfolios so that (if appropriate) funds can be re-allocated in line with our investment policy. For example, if the value of our short-term cash investments exceeds the required amount, a discussion will take place to determine when this excess should be placed into the medium-term or the long-term portfolio, depending on our projected cash flow needs.

1.22. The following monitoring policy will be adopted to ensure this is carried out:

<table>
<tr><th>What</th><th>Who</th><th>Frequency</th><th>Output</th></tr>
<tr><td>Review suitability of overall investment policy and portfolio allocation</td><td>Investment committee</td><td rowspan="2">Half yearly (quarterly at least initially)</td><td rowspan="4">Report to the Council summarising findings and any proposed action</td></tr>
<tr><td>High level investment performance, policy compliance and suitability review</td><td rowspan="3">Investment committee</td></tr>
<tr><td>Detailed investment performance and suitability review</td><td rowspan="2">Annually</td></tr>
<tr><td>Investment portfolio ethical policy audit</td></tr>
<tr><td>Investment policy, including ethical policy</td><td>Council</td><td>Every two years</td><td>Revised or confirmed policy</td></tr>
<tr><td colspan="4">Significant deterioration in the value of any of the investment portfolios will be reported to the Chair of the Investment Committee in line with the Markets in Financial Instruments Directive (MiFID). In summary, this requires investment managers to inform us where the overall value of the portfolio depreciates by 10% compared to the previously reported value no later than the end of the business day in which the threshold is exceeded.</td></tr>
</table>

Charges

1.23. Complete transparency is required for all charges associated with the investment portfolio. This includes, but is not limited to, fund and investment manager fees, transaction costs, investment adviser fees, commissions. A clear statement of all charges applied to the portfolio is required as part of the annual report as well as interim reports.

2. Short term investment policy

Financial aims and objectives

Primary

2.1. **Liquidity:** to maintain sufficient immediately available cash holdings to provide working capital with which to operate on a day to day basis with sufficient contingency to be able to absorb a reasonable level of unexpected cash calls, and to meet planned capital expenditure in less than three years. The maximum term for any fixed term deposits is 24 months.

2.2. **Manage risk:** investments in the form of cash deposits are maintained only in appropriately credit rated banks or building societies regulated by the Prudential Regulation Authority or they may be held in low risk and appropriately rated money market funds. The total placed with any individual bank or building society or money market fund shall not exceed 40% of the funds within the short term portfolio.

Secondary

2.3. **Minimise the impact of inflation on real terms value:** within the restrictions of the primary aims, maximise the income from deposits reflecting market conditions.

Investment risk

2.4. Our risk appetite for the short term portfolio is Averse. The short term portfolio will be managed in house, using bank and building society deposits, so as to reduce the risk of capital loss to the lowest level practically possible. There will be zero volatility.

2.5. We would expect the level of the short term portfolio to be between one and three months operating costs, so as to cover changes over the year in working capital caused by monthly variations in registrant fee receipts, plus any amounts for additional planned spend (such as major improvement or capital investment projects) falling within three years.

3. Medium term investment policy

Financial aims and objectives

Primary

3.1. **Increase real value:** The targeted total return (income plus capital growth) for this portfolio is CPI + 1% per annum (net of all fees).

3.2. **Manage risk / absolute return:** This portfolio will be managed within a low volatility / absolute return framework. This is to reduce the risk of crystallising losses in the event of an unforeseen liquidity requirement.

3.3. **Liquidity:** It is important that the underlying investments, although designed to be invested for three or more years, are readily available. We expect to be able make withdrawals from the portfolio at any time and receive the proceeds within 14 days[3].

Secondary

3.4. **Low correlation to traditional (predominantly stock market based) portfolio:** We aim for the correlation of this portfolio to our long-term portfolio to be as low as it can be without jeopardising our primary objectives.

3.5. **Income:** We expect the medium term portfolio to generate dividend and interest income, but income should not be targeted at the expense of our primary objectives.

Investment risk

3.6. Our risk appetite for the medium term portfolio is Cautious. The medium term portfolio will be managed with the objective of avoiding a drop of more than 10% in its value on any given anniversary. We understand that all investments carry some form of risk, and we accept that there is always a possibility that losses may occur.

3.7. The portfolio will be managed with the objective of achieving low volatility, between 4% and 6%. Volatility is a measure of short term variation of a portfolio's value from its longer term trend. The lower the volatility, the lower the risk.

3.8. For clarity, a **Cautious** Investor is looking for an investment where the long-term priority is capital preservation, although acknowledging that the investment could still fall in value. The investment should aim to produce returns that are comparable with those from a high street deposit account, but have the potential for some long-term growth. A Cautious investor would feel very uncomfortable if their investment rose and fell in value very quickly.

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[3] When the investment policy was first approved in March 2019, the medium term investment portfolio was intended to hold funds set aside for capital projects planned for three or more years in the future. Subsequently, we brought forward our plans for investment in our systems and accommodation to start within three years, so we have not established a separate medium term portfolio, and instead we have held a larger short term portfolio. Once the current cycle of investment in systems and accommodation is completed, we may establish a separate medium term portfolio.

4. Long term investment policy

Financial aims and objectives

Primary

4.1. **Increase real value:** The targeted total return (income plus capital growth) for this portfolio is CPI plus up to 3%[4] per annum (net of all management fees).

4.2. **Manage risk:** To pursue a balanced overall long-term risk.

Secondary

4.3. **Income:** We expect the long term portfolio to generate dividend and interest income, but income should not be targeted at the expense of our primary objectives.

4.4. **Liquidity:** It is important that the underlying investments are relatively liquid. We would expect to be able make withdrawals from the portfolio and receive the proceeds within 30 days.

Investment risk

4.5. Given the long-term nature of this portfolio and the lower risk investments held by the charity in the short and medium term portfolios, we are content to take a balanced approach to risk with the regard to the long term portfolio.

4.6. However, the long term portfolio will be managed with the objective of avoiding a drop of more than 20**%** in its value on any given anniversary.

4.7. We want to maximise diversification, while ensuring that the primary and secondary aims are achieved. The purpose of this diversification is to maximise opportunities for income and growth, while managing risk and both preserving and developing the capital value of the portfolio.

4.8. We will not set a volatility objective for the long term portfolio, but we expect volatility to be typically between 7% to 12%.

4.9. For clarity, a **Balanced** Investor is looking for a balance of risk and reward, and while seeking higher returns than might be obtained from cash deposits, recognises that this brings with it a higher level of risk and that the value of their investment may fluctuate in the short term. They would feel uncomfortable if the overall value of their investments were to fall significantly over a short period or if their capital was eroded.

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[4] The target return will be set by the Investment Committee and communicated to the investment managers. The Investment Committee may set a target lower than 3% in order to achieve the appropriate level of risk.

5. Ethical investment policy

5.1. Our charitable objectives are aligned with our vision which is safe, effective and kind nursing and midwifery, improving everyone's health and wellbeing.

5.2. Our strategy for 2020-2025 includes the following corporate social responsibility statement:

We are committed to acting responsibly and operating sustainably in all our activities:

- *We conduct ourselves ethically and in line with our values. Our policies outline our commitment to ethical working practices and human rights, such as the Modern Slavery policy and the ethical investment policy.*

- *We champion the values of equality, diversity and inclusion. We value the diversity of the people on our register, those they care for and our NMC colleagues. We believe that equality of opportunity is essential for people to do their jobs well.*

- *We are mindful of the mental and physical wellbeing of the people who use our services, our professions we regulate, and our colleagues.*

- *We recognise the serious impact of the climate and ecological crisis, and its effects on public health in the UK and worldwide. We are committed to acting sustainably, and supporting those working in the health and care sector to do so, particularly in reducing carbon emissions. We recognise that taking meaningful action to protect the environment, and mitigate climate change, will also benefit people's health and wellbeing.*

We will develop a sustainability plan with clear objectives, which will incorporate how we work as a regulator. This will cover activities such as investment, procurement, travel, energy and waste. Our plan will be available on our website and we will update people on our progress through our annual report.

5.3. Our investments must be consistent with those objectives, with our role as a regulator of health and social care professionals in the United Kingdom, and with our organisational values. At the same time, we must have particular regard to the fact that, while investment returns should help us reduce upward pressure on registrants' fees, our cash reserves have built up as a result of fees paid in the past by our registrants and must be protected. And we must comply with the law and the Charity Commission's guidance on charities' investments, which requires trustees to invest in the best interests of the charity, including the expectation of a financial return.

5.4. Therefore we will select investment managers who are skilled not only in generating good investment returns but are also committed to and expert in ethical investment. We will set an ethical investment mandate that reflects our objectives, our role and our values, and we will monitor the managers' performance against that mandate.

5.5. Our investment mandate identifies two categories of excluded direct investment: those that are subject to absolute exclusion from our portfolio and those subject to a turnover-based exclusion.

Category one: absolute exclusion

5.6 We exclude all direct investment in companies whose products have an inherent, fundamental conflict with our objectives, role or values. For example, smoking is inherently damaging to health; therefore our investment mandate totally excludes direct investment in companies that produce tobacco or tobacco related products.

5.7 There is clear evidence that pollution and climate change are causing damage to health, and of the impact of fossil fuels on both pollution and climate change. Whilst we recognise that hydrocarbon products will remain essential to the delivery of health and other services for many years to come, we exclude direct investment in companies in the Energy Sector, in order to avoid direct investment in companies that generate revenues from fossil fuels.

5.8 The absolute exclusions are:

- Direct investment in any company that produces tobacco or tobacco related products
- Direct investment in any company that produces pornography; and
- Direct investment in any company in the Energy[5] Sector.

Category two: turnover-based exclusion – direct investments

5.9 The second category limits our direct investment in companies which are at increased risk of being incompatible with our objectives, role or values. For example gambling is not *inherently and unavoidably* damaging to health, so it is not included in our first category of absolute exclusions. But gambling is likely to be damaging to health if done to excess. Therefore we do not actively *want* to invest in gambling to any significant extent.

5.10 On the other hand, reducing our investment risk while maximising our long term returns depends on maintaining a sufficient diversification of our investments. Many companies operate through multiple subsidiaries in a wide range of sectors and markets. Therefore we need to be careful that our ethical investment policy does not exclude companies whose involvement in the given activity, and therefore the risk of conflict with our objectives, role or values, is acceptably small. To achieve an appropriate balance between our financial objectives and our ethical objectives, we apply a turnover-based exclusion: that is, we will not invest in companies who derive more than five percent of their turnover from the products or services which are at increased risk of being incompatible with our objectives, role or values.

[5] This will be implemented by using Global Industry Classification Standard (GICS), excluding those companies in the Energy Equipment and Services as well as the Oil, Gas and Consumable fuels sectors. These are the two industry groups that make up the Energy Sector

5.11 The turnover-based exclusions are direct investment in any company that derives more than five percent of its turnover from:

- gambling;
- alcohol;
- armaments;
- infant formula milk.

Category three: turnover-based exclusion - indirect investment

5.12 When we invest indirectly, for example through a fund or unit trust, the indirect investment vehicle must not hold direct investments in companies that derive more than ten percent of their turnover from producing:

- tobacco;
- pornography;
- gambling;
- alcohol; or
- armaments.

We do not apply turnover-based exclusions on indirect investment in companies producing infant formula milk, or companies in the Energy Sector, because it would be impractical. Indirect investment vehicles that exclude those sectors are not available.

Review of the ethical investment policy

5.13 Our investment policy and performance is reviewed by the Investment Committee, who report back to Council. The investment mandate will be reviewed at least annually by the Investment Committee, who will consider whether there should be changes to the companies or sectors in either of the two categories, or changes in the exclusions for indirect investment. With respect to the policy on the energy sector in particular, as well as exclusions being reviewed at least annually, the exclusions will be reconsidered if the investment manager, between annual reviews, presents a strong case to invest. The case to accept such investment would need to show, in relation to the proposed investment, evidence of compliance with the Paris Agreement, and a share price which was low enough to warrant investment.

UNPRI

5.14 In addition to this there is an expectation that each manager can demonstrate due regard to the Principles of Responsible Investment supported by the United Nations (www.unpri.org) and preferably be signatories.

5.15 The initiative consists of an international network of investors working together to put the six principles for responsible investments into practice. Its goal is to understand the implications of sustainability issues for investors and support signatories to incorporate these into their investment decision-making and ownership practices. By implementing the principles, signatories contribute to the development of a more sustainable financial system.

5.16 The six principles state:

- We will incorporate environmental, social and corporate governance (ESG) issues into investment analysis and decision-making process.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

5.17 In accordance with our corporate social responsibility statement, we expect our investment managers to actively apply the UNPRI. We want to use our influence as investors to promote ethical working practices, respect for human rights, and equality, diversity and inclusion within the companies in which we invest. We seek to invest in companies that have environmental strategies that are consistent with the Paris Agreement's central aim of keeping the 21st century global temperature rise well below two degrees Celsius. Where these strategies do not exist we will use active ownership through our investment managers to drive change. We will review the ESG performance of our portfolio alongside the financial performance of the portfolio.

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