Middlesex County RFU Investment Policy

1. Objective of this policy

To set out guidelines for the Middlesex Management Board in the management of Middlesex County RFU Ltd investments ('County') and its associated risks.

2. Scope

Covers investment management, and the identification, measurement, monitoring and control of associated risks. This also covers the 3rd party services retained by Middlesex Management Board to assist with the management of its investments and expert advice.

3. Audience

This policy shall be used by the following:

- Middlesex Management Board
- Middlesex County Officers and Members
- Middlesex County RFU Finance Committee.

4. Risks

Please refer to Appendix 1 for the definition of all risk types.

5. Governance

5.1. Middlesex Management Board

The Middlesex Management Board holds the ultimate responsibility for the management of Middlesex's County RFU investments, and associated risks. To manage this, it has delegated responsibility as follows:

- Ownership for investment management to the Treasurer
- Oversight of investment activities to the Middlesex County RFU Finance Committee.

In honouring its ultimate responsibility, it will:

- Approve the Investment Strategy, as recommended by the Treasurer and Middlesex County RFU Finance Committee
- Approve the Investment Risk Appetite and associated Risk Tolerances
- Monitor (at a high level) investment activities through review of exception reporting
- Approve this Policy and any subsequent changes.

Middlesex Rugby, PK1 Twyford Avenue Sports Ground, Twyford Avenue, Acton, London W3 9QA
tel: 020 8896 3400 email: countyoffice@middlesexrugby.com www.middlesexrugby.com
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5.2. Treasurer

The Treasurer is accountable for the following:

- Management of the day of day activities of the Investment Portfolio, which includes the management of market risk, credit risk and liquidity risk
- Market Risk management responsibilities include approval of market risk reports and overseeing of the day- to-day management of market risk within the business.

5.3 Middlesex County RFU Finance Committee

The Middlesex County RFU Finance Committee's key investment responsibilities include:

- Develop and propose a suitable investment strategy to the Middlesex Management Board, including risk appetite and risk tolerances (in conjunction with the investment managers)
- Set investment guidelines for the 3rd party investment services provider, based on the strategy, risk appetite and overall risk tolerances
- Oversight of the Investment Portfolio, which is managed day to day by the Treasurer through the external investment managers under the Discretionary Investment Management Agreement
- Monitor:
  - Adherence to this investment policy and any investment guidelines
  - Investment performance
  - Investment gains and losses
  - Key market risks, and identify key emerging risks
  - Risk indicators
  - Breaches of risk appetite and guidelines
  - Performance against targets
- Report quarterly on the above to the Middlesex Management Board
- Recommend changes to the investment strategy when appropriate.

The Finance Committee meets regularly with the appointed investment managers to review the portfolios, investment decisions, asset class allocations and market forecasts as set out in its quarterly reports.

5.4 External Investment Managers

External investment managers manage the investment portfolio on a day-to-day basis.

6. Investment Strategy

Middlesex County's Investment Strategy is to return an acceptable yield, whilst safeguarding the principal and meeting liquidity requirements.

Middlesex County has identified three key objectives for the investment of assets, consistent with its Risk Appetite. Middlesex County recognises that the objectives can, at times, be conflicting, and therefore prioritises the achievement of each objective. These objectives are set out below:

Objective 1 – Preservation of Capital

- Middlesex County recognises that losses can arise from the movement in market price of financial assets and has limited risk appetite for loss from this risk. Accordingly, the investment portfolio should be comprised of well-diversified, predominantly high quality (investment grade), short duration assets
- The desire for capital preservation is the main objective of the investment strategy and should take priority over the other objectives. Importantly, this does not mean that capital preservation must be achieved to the exclusion of the other objectives, but rather, that when taking investment decisions, capital preservation is priority.

Objective 2 – Appropriate return relative to risk

- Middlesex County seeks to ensure, that the return achieved from the financial assets is appropriate for the risk taken. To achieve this, Middlesex County sets benchmark returns for the portfolio of financial assets that it holds, and monitors performance against this benchmark
- Middlesex County recognises that actual performance may deviate from benchmark for any individual monitoring period. It does not expect the actual performance to be consistently worse or better than the benchmark as this implies that return is not appropriate for the risk
- It is the responsibility of the Finance Committee to set the appropriate benchmark and monitor performance against it
- Achievement of appropriate return is subordinate to preservation of capital.

Objective 3 – Liquidity requirements met

- Middlesex County seeks to ensure that it has financial assets of sufficient liquidity to meet its cash flow requirements, for the reasonably foreseeable future
- This does not mean that assets must be readily realisable, but rather that assets should be capable of being liquidated swiftly and without significant loss of value
- The Finance Committee monitors the liquidity of all financial assets
- Achievement of this liquidity objective beyond the minimum requirement is subordinate to the preservation of capital and appropriate return.

7. Risk Management Appetite and Tolerances

7.1. Market Risk

Middlesex County holds a significant amount of financial assets and expects the return on these assets to form a significant part of the annual return.

Middlesex County has no exposure to currency risk, interest rate risk and spread risk.

Middlesex County has an appetite for market risk in normal market conditions as defined by the agreed Investment Mandate.

7.2. Credit and Counterparty Risk

Credit risk within Middlesex County's investments is mainly the risk of default by investment asset counterparties. Middlesex County has a measured appetite for credit or counterparty default risk in normal market conditions.

Controls

- Deposits may only be made to approved banks.

7.3. Liquidity Risk

The Finance Committee is responsible for ensuring that Middlesex County have sufficient liquidity available to meet both immediate and foreseeable cash flow requirements.

Controls

- The Treasurer reviews liquidity requirements monthly
- Middlesex County should maintain sufficient liquid funds to pay liabilities as they fall due.

8. Investment Management

Middlesex County's investment portfolio is managed both internally and externally.

- Investment funds are managed and approved by external investment managers
- Other monies, principally cash on deposit, are managed internally under the oversight of the Treasurer.

The Middlesex RFU Finance Committee has approved predefined individual standing authorities for day-to-day activities. Any decision outside these limits requires approval from the Finance Committee.

All individuals undertaking investment decisions will strive to invest with the judgment and care that prudent individuals would exercise in the execution of their own affairs, to maintain the safety of principal, maintain liquidity to meet cash flow needs and to provide competitive investment returns for Middlesex County.

8.1 External Management

Middlesex Management Board is responsible for the appointment of any external investment managers and the Treasurer is responsible for coordinating and conducting the due diligence process. Once complete, the due diligence evidence and findings are presented to the Finance Committee for final review and recommendation to the Middlesex Management Board.

Investment funds are managed by external investment managers (i.e. experts) appointed by Middlesex Management Board, under a Discretionary Investment Management Agreement (DIMA).

- The DIMA sets out guidelines within which the external investment manager must operate. These investment guidelines include details of permitted securities (including limits), minimum credit ratings and maximum concentrations
- Any amendments to the guidelines or further instructions, can only be made by persons as specified in the DIMA
- Two officers for and on behalf of Middlesex Management Board must agree the DIMA
- Authorised signatories in respect of transfer of cash or other assets from the fund can also be found in the DIMA.

The external investment manager, acting as agent, has complete discretion to buy, sell, retain and exchange or otherwise deal in investments and other assets, within the agreed guidelines. An external investment manager is classed as a service provider, and their appointment and on- going tenure is subject to the scrutiny by the Finance Committee.

8.2 Derivatives

Derivatives are an important tool for prudent investment management and are integral to the investment risk management process. Their proper use should enhance the likelihood of meeting the overall investment performance objectives of an investment portfolio.

The use of derivatives such as futures, options, swaps and forwards is not permitted within the Middlesex County investment assets.

8.3 Investment Reporting

Investment reports are prepared quarterly by the external investment managers for review by the Middlesex County RFU Finance Committee. The reports include:

- Market values of the assets held
- Investment return for current quarter, current year to date and from inception
- Performance of the fund against the benchmarks
- Explanation (by reference to market indicators) for the performance variance
- Recommendations from the investment manager - the report also includes general market information identifying wider economic indicators and market opportunities.

The Treasurer escalates significant deviations or underperformance to the Middlesex Management Board.

9. Owner of this Policy

This policy is owned by the Treasurer and approved by the Middlesex Management Board. This policy will be reviewed and updated annually.

10. Document Approval History

Date	Version	Document Approver	Comment
30 June 2020	Version 1	Middlesex Management Board	To be reviewed in August to September 2021

Appendix 1 - Risk Definitions

1.1 Investment Risk

Investment risk for the purposes of this policy equals: Market Risk + Credit Risk + Liquidity Risk (as defined below).

1.2 Market Risk

Market risk is the risk of loss, or of an adverse change to Middlesex County's financial situation, resulting (directly or indirectly) from fluctuations in the volatility of market prices of assets, liabilities and financial instruments. It is the risk that the value of Middlesex County's shareholder funds change, due to economic factors such as variations in interest rates. Middlesex County's shareholder funds are defined as Middlesex County's assets less Middlesex County's liabilities.

Market risk is driven by:

- **Currency Risk** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level, or in the volatility of, currency exchange rates
- **Interest Risk** the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates
- **Equity Risk** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities
- **Spread Risk** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

1.3 Credit Risk

Credit risk is the risk of loss or of adverse change to Middlesex County's financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Middlesex County is exposed, in the form of counterparty default risk, spread risk, or market risk concentrations.

1.4 Liquidity Risk

Liquidity risk is the risk that Middlesex County is unable to realise investments and other assets in order to settle its financial obligations when they fall due.