

Investment Policy

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1. Introduction and purpose

- 1.1 The purpose of this Investment Policy (the Policy) is to give guidance to the Finance and Performance Committee (FPC) of the university, and staff involved with treasury management, in connection with the investment and management of the university's funds designated for investment (the "Investment Funds").
- 1.2 Long-term investment objectives, policies and a prudent investment programme are essential tools for the Board of Governors and FPC in carrying out their fiduciary responsibilities with regard to the management and investment of the university's investment Funds. In the pursuit of its investment objectives, the university may engage the services of one or more investment managers. The Policy also assists FPC in guiding Investment Managers in performing their duties.
- 1.3 This Policy aims to:
 - i. Establish a clear understanding of the University's investment goals and objectives.
 - ii. Define and assign responsibilities for investing activities.
 - iii. Offer guidance and define limitations regarding the investment of University assets, including endowments.
 - iv. Manage University assets according to prudent standards and consistent with the laws of the United Kingdom.
 - v. Establish the relevant investment horizon for which the assets will be managed.
 - vi. Establish a basis of evaluating investment results
- 1.4 The university will undertake its investment activities in accordance with the Policy, the Treasury Management Policy and the University's Financial Regulations.

2. Delegation of Authority

- 2.1 The university Scheme of Delegation sets out the following for investment decisions:
 - i. Item 6.7 - Approval of the Treasury Management Policy, including the Establishment of borrowing limits and facilities (the Board of Governors)
 - i. Item 6.8 - Management of endowments and other investments (FPC)
 - ii. Item 6.9 - Policies on investment of endowments and other assets (FPC)
 - iii. Item 6.18 - Appointment of investment advisers (FPC)

2.2 The Terms of Reference for FPC set out the following responsibility:

- i. Approve and monitor the University's Treasury Management Policy, Investment Policy and Investment Strategy
- ii. Consider policies on investment of endowments and other assets.

2.3 *Delegated officers* of the University participate in:

- the formulation and execution of investment policy, objectives, and guidelines;
- setting asset allocation targets and recommending rebalancing where necessary;
- evaluating investment managers;
- reviewing such managers over time;
- measuring and reporting investment performance and other tasks as deemed appropriate, to FPC.
- execute day to day financial transactions within delegations and consistent with the provisions of this Policy.

2.4 Investment Manager(s) are designated external entities with discretion to purchase or sell, in the University's name, the specific securities that will be used to meet investment objectives.

2.5 Arrangements with any external body or party must be in writing, comply with the provisions of this policy and be signed on behalf of the University by persons with delegated authority.

3. Assignment of responsibility for investment management

3.1 The Executive Director of Finance & Procurement is responsible for investment of university funds in accordance with Treasury Management Policy, Investment Policy and the agreed Annual Investment Strategy.

3.2 Before the start of each financial year (or as soon as possible thereafter), an Annual Investment Strategy shall be drawn up for the following financial year in conjunction with the investment manager. The Investment Strategy and any variations are to be approved by FPC.

3.3 In exercising these responsibilities, the Executive Director of Finance & Procurement will:

- i. Determine the funds available for investment in line with the agreed strategy, risk profile and allocation policy
- ii. Recommend the appointment of external investment professionals specifically including Investment Manager(s).
- iii. Monitor the performance of the Investment Manager(s) to ensure adherence to policy guidelines and to monitor investment performance.
- iv. Monitor control procedures: For example, ensuring that the Investment Manager(s) comply with the provisions of this policy and its stated investment management process.

- 3.4 Each Investment Manager appointed by the University must acknowledge, in writing, its acceptance of responsibility for investing University funds and agree to comply with the requirements of this Policy. Alternatively the University must be satisfied that any Investment Management Agreement between the University and the Fund Manager ensures that the Fund Manager has the specific responsibilities listed below. These terms of appointment of each Investment Manager will allow the investment manager discretion to make investment decisions for the assets placed under its jurisdiction, while observing and operating within this Policy. Specific responsibilities of the Investment Manager(s) include:
- a. Discretionary investment management including decisions to buy or sell individual securities, either directly and/or via specialist investment managers, and to alter asset allocation within the limitations set out in this policy.
 - b. Reporting, on a timely basis, monthly investment performance results.
 - c. Where appropriate provide monthly valuation of the investment portfolio based on the previous month's closing prices.
 - d. Communicating any major changes to economic outlook, investment strategy, or any other factors that may affect investments, or investment objectives.
 - e. Informing the University regarding any qualitative change in the investment management organisation: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

4. General investment principles

- 4.1 Investments shall be made solely in the interests of the University.
- 4.2 Investments shall be made to obtain the best financial return for the University, consistent with prudence and the need to ensure adequate spread and diversification of assets. Due consideration must also be taken for environmental, social and governance requirements, as set out under section 9 of the Policy.
- 4.3 The University may employ one or more investment managers to attain its investment objectives.
- 4.4 For endowments, the University will ensure that each investment has an investment objective and that an appropriate selection process is undertaken which considers the University's investment principles and terms of the donation.
- 4.5 Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return, in accordance with the Treasury Management Policy

5. Investment objectives

- 5.1 Other than surplus cash funds required for short-term needs and invested in accordance with the Treasury Management Policy, all other funds invested in a portfolio of different asset

classes with investment managers should be treated as long-term assets managed to maintain the purchasing power of those assets in the future while being mindful of the cash flow and liquidity requirements of the university. Investment Funds should be invested in such a way as to help in meeting the future capital and other investment needs of the university. The long-term objective is to achieve a rate of return providing capital growth based on a 60% equity to 40% fixed income for the £3m invested annually towards bond redemption due in 2042, whilst ensuring the discretionary portfolio adheres to the university's ESG criteria (see section 9) and invests in companies that contribute to UN Sustainable Development Goals. This will be agreed with investment managers and FPC annually.

- 5.2 It is not expected that the investment objectives will be achievable in every year and, as a result, will normally measure investment performance over rolling three and five-year periods. The performance will be benchmarked against:
- 60% MSCI World Net GBP Index for equity investments
 - 40% Bloomberg Capital Corporate 1-10 years GBP index for fixed income investments
 - Peer group benchmark for similar non-profit/charity portfolios
 - Appropriately comparable indices for global sustainable equity funds, recognising the ethical position for the university's investments.
- 5.3 The overall return will be evaluated against a policy portfolio benchmark consisting of the sum of different asset class benchmarks weighted in accordance with the long-term policy targets.
- 5.4 It is recognised that some level of investment risk, including volatility and illiquidity, is necessary to achieve the long-term investment objectives of the university. In developing and implementing the university's investment program, FPC and investment staff will consider the risks associated with each investment strategy and asset class
- 5.5 The University will invest in high quality assets and in respect of the main asset classes the objectives are as follows:
- a. Bank Account: To provide absolute security and accessibility for regular transactions.
 - b. Cash Portfolio: To provide a high degree of security, accessibility and a competitive interest rate.
 - c. Fixed income - bonds and gilts: To provide a high degree of security and a return in excess of an agreed benchmark
 - d. Equities: To exceed the target real rate of return (see below) over a suitable period.
 - e. Alternatives: To enable portfolio diversification and contribute towards exceeding the target real rate of return
 - f. Property: The University will invest in property to either;
 - Advance the University in the achievement of its strategic aims.
 - Achieve a return commensurate with investments within this asset class
- 5.6 More specifically:
- i. Rate of Return - The rate of return should be agreed with each fund manager using the best matching and readily available benchmark index or composite benchmark. University bank accounts should return a competitive rate of interest in

comparison to similar facilities in the market

- ii. Income and Growth - To achieve a balanced return of current income and growth of principal
- iii. Long-Term Growth of Capital - To emphasise long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

5.7 Investment return is to be measured on the basis of total return; the aggregate return from capital appreciation, dividend and interest income, and fees.

6. Volatility of returns

6.1 In order to achieve its objectives, it is understood that investment returns will experience volatility and fluctuations in market value. The University will tolerate volatility as measured against the volatility of a comparable market index in each asset class and a composite index based on the strategic allocation to each asset. The indices used as a measure of an investment manager's performance will also be used to benchmark what is allowable volatility (risk).

7. Liquidity and cash management

7.1 Liquidity is a key consideration for credit rating agencies when setting a university's formal credit rating. The Executive Director of Finance & Procurement will ensure that any investment portfolio agreed with investment managers is highly liquid and, where required, can be cashed within 30 days.

7.2 To minimise the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Executive Director of Finance & Procurement will, when required, provide investment manager(s) with an estimate of expected net cash flow, to allow sufficient time to build up necessary liquid reserves.

7.3 The Executive Director of Finance & Procurement will determine broad targets for the level of available investment funds that are to be held in cash or cash equivalent forms.

8. Asset allocation

8.1 The responsibility for establishing the strategic asset allocation for the university rests with the Executive Director of Finance & Procurement. In making asset allocation judgments, the university must invest in a portfolio of assets that will generate a return sufficient to meet the stated objectives. This asset allocation will be agreed annually with FPC when the Annual Investment Strategy is approved.

8.2 The general policy is that through significant allocations to asset classes that have different risk and return characteristics, the university maintains a highly diversified portfolio that is expected to generate strong returns and reduce volatility over the long term.

8.3 FPC will formally review the asset allocation during its annual review of this Policy.

9. Environmental, Social and Governance (ESG) principles

9.1 The university is committed to ensuring that it makes investment decisions responsibly and with integrity. The university adheres to Charity Commission guidance on ethical investments, noting that governors have a duty to maximise returns on investment for charitable benefit, but also recognising that there are specific situations where governors may properly allow their investment strategy to be governed by considerations other than the level of investment return. The university's investment policy is designed to enable a sustainable investment approach, whilst minimising any potential negative impact on its investment returns. The university will seek to be open and transparent about its policy and practice.

9.2 The university believes that, when investing its funds, a high priority must be placed on promoting good standards environmental, social, and governance ('ESG') behaviour. Accordingly, it expects its appointed investment manager, when making investment decisions, to consider the following areas (this list should not be considered as exhaustive);

- Protection of the global environment, its climate and its biodiversity including the reduction and future elimination of fossil fuel exploration and production;
- Promotion of human rights, including but not limited to the equality of gender, race and sexuality;
- Promotion of good business ethics and good employment practices;

In recognition of conflict with its objectives and these wider principles, the university will not invest directly or indirectly in producers of any fossil fuels including thermal coal, oil sands, shale oil and shale gas, manufacturers of weapons and will not invest directly and reasonably minimise indirect investments in;

- tobacco manufacturers;
- adult entertainment;
- alcohol;
- gambling; and
- companies found to be in violation of international law

9.3 In relation to investments made through third party fund managers using pooled funds or similar vehicles, the university's requirement is that these must recognise the UN Sustainable Development Goals, and show their active commitment to the principles through their engagement with invested companies on ESG matters.

9.4 The university will require its discretionary investment manager to encourage good behaviour or discourage poor behaviour through screening of public market investments, either positively or negatively or through direct engagement with firms or fund managers. They will be expected to use voting in support of the principles of this policy. The appointed investment manager will

be accountable to the university in terms of financial performance and adherence to commitments made on issues of sustainability.

10. Financing and operating activities

- 10.1 The amount of funds available for investment is determined by the demand for funds for financing and operating activities of the University, including financing the annual coupon and for £3m to be invested annually in a long-term portfolio towards redemption of the £90m bond in 2042.
- 10.2 Financing and operating decisions along with market conditions may therefore significantly increase or decrease the investment returns to the University.
- 10.3 Financing decisions involving raising external finance must be considered within the context of the Terms and Conditions of the university's listed bond.
- 10.4 Management decisions with significant impact on operating cash flows should be evaluated to determine if alternative financing arrangements can be entered into so as to maximise investment income.
- 10.5 All major cash flows arising from financing or operating decisions which impact on available funds for investment are to be reported via Treasury updates provided to FPC at each of its meetings.

11. Investment manager performance review and evaluation

- 11.1 Performance reports generated by the Investment Manager(s) shall be compiled quarterly. The investment performance of total portfolios, as well as asset class components, will be measured against the market index asset class benchmarks agreed with the investment manager(s). Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this policy. The level of fees charged will also be considered within this context and to assess value for money.
- 11.2 The University intends to evaluate the portfolio(s) over at least a three- year period, but reserves the right to terminate a manager for any reason including the following:
 - a. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
 - b. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
 - c. Significant qualitative changes to the investment management organisation.

12. Reporting and oversight

- 12.1 An Investment Report will be obtained from the investment managers and submitted to FPC at each of its meetings.
- 12.2 The Investment Report will contain 3 basic elements:
- i. Asset Allocation Information - Asset values and asset class percentages versus target allocation and ranges.
 - ii. Investment Performance - Investment returns versus performance benchmarks.
 - iii. Guideline Compliance - A statement that each portfolio conforms to guidelines or identification where variances occur

13. Conflicts of interest

- 13.1 This Section of the Investment Policy is intended to provide FPC with a policy and procedure for addressing conflicts of interest that may arise in connection with the FPC's discharging of its duties and responsibilities. Refer to **Appendix 1** to this policy for details.

Please note this Section of the Investment Policy supplements, does not replace, the university's Conflict-of-Interest Policy with respect to conflicts related to matters under consideration by FPC.

- 13.2 For example, and without limitation, a conflict of interest could arise when;
- i. a member of FPC has a material ownership interest in, or is directly employed by, a potential Investment Advisor or Investment Manager;
 - ii. a member of the FPC is a client of a potential or existing Investment Advisor or Investment Manager (e.g., the FPC member is also an investor with the Investment Manager); and
 - iii. a member of the Board or an officer who is *not* a member of the FPC has a material ownership interest in, or is directly employed by, a potential Investment Advisor or Investment Manager.
- 13.3 Annual Disclosure

On an annual basis each governor, FPC member, staff members involved with treasury activity, and Investment Advisor should indicate on the university's Fit and Proper Person and Related Party Transactions Form provided if, to the best of his or her knowledge, he, she and/or a family member or related entity as defined in Appendix 1 (i) has a material ownership interest in, or is directly employed by, an Investment Advisor engaged by the University or an Investment Manager with which the University invests, (ii) is a client of an Investment Advisor engaged by the University, or (iii) has a material investment (as defined on the Fit and Proper Person form) in (a) any of the funds in which the University is invested, or in any fund managed by the same Investment Managers, or (b) any separate investment account with any of the Investment Managers with which the University invests.

14. Confidentiality

- 14.1 Members of FPC, university staff and Investment Managers involved with investments are expected to maintain the confidentiality of information obtained by virtue of their positions. Information obtained solely by virtue of one's position on FPC, as a member of the investment staff, or as an Investment Manager (and not from other sources or relationships) is not to be used for personal financial purposes.

Appendix 1: Managing conflicts of interest

1. When an FPC Member Owns or is Employed by a Potential Investment Advisor or Investment Manager

It is the general policy of the University not to engage an Investment Advisor and not to invest with an Investment Manager if a member of the FPC has a material ownership interest in, or is directly employed by, the Investment Advisor or Investment Manager. If an FPC member has such a relationship, that relationship must be disclosed to the Chair of the Committee in accordance with the procedures described below.

2. When an FPC Member is a Client of a Potential Investment Advisor or Investment Manager

If an FPC member knows that he or she has engaged a potential or existing Investment Advisor, or has an investment with a potential or existing Investment Manager, whether in the same fund as the University, a different fund, or in a separate investment account with the Investment Manager, such relationship or investment must be disclosed to the Chair of the Committee in accordance with the procedures described below.

3. When a Board Member or Officer who is not an FPC Member Owns or is Employed by a Potential Investment Advisor or Investment Manager

It will be the responsibility of the investment staff, when performing due diligence on a potential Investment Advisor or Investment Manager, to use reasonable efforts to ascertain whether any member of the Board or any officer is a principal, holds a material ownership interest in, or is otherwise directly employed by that Investment Advisor or Investment Manager. If any such relationship exists, the investment staff will disclose the interest to the Chair, who will consult with the investment staff and legal counsel, as appropriate, to determine whether the relationship merits further consideration by the FPC.

4. Family Members and Related Entities

The policy and procedures described in this section also apply to family members and related entities. For example, if an FPC member knows that his or her family member or related entity has an investment with an Investment Manager under consideration by the University, the FPC member will disclose this information in accordance with the procedures described below. For purposes of this policy, (i) “family members” means:

- a governor’s/director’s spouse,
- children under 18 years old,
- another company associated with the governor/director,
- a trustee of a trust under which the governor/director, his/her family (his/her partner/spouse and children under 18 years old) or an associated company may benefit, and
- a partner of the governor / director or persons connected as above

and (ii) “related entities” means any entity in which FPC members and/or their family members have a five percent or greater ownership interest.

5. Procedure for Disclosure and Recusal

5.1 When an FPC Member Owns or is Employed by an Investment Advisor or Investment Manager.

If the FPC is considering engaging an Investment Advisor or purchasing an investment with an Investment Manager, an FPC member with a material ownership interest in, or who is directly employed by, that Investment Advisor or Investment Manager must disclose the interest or employment to the Chair. In consultation with legal counsel and investment staff, as appropriate, the Chair will make a recommendation to the Committee, which will determine whether the Investment Advisor should be disqualified from engagement by the University, or the Investment Manager should be disqualified from investment by the University.

5.2 When an FPC Member is a Client of an Investment Advisor or Investment Manager

If the FPC is considering engaging or continuing the engagement of an Investment Advisor, or is considering purchasing or redeeming an investment in a fund or with an Investment Manager, an FPC member who is a client of such Investment Advisor or fund or Investment Manager (e.g., is also invested in the fund or otherwise with the Investment Manager) must disclose the interest to the Chair. In consultation with legal counsel and investment staff, as appropriate, the Chair will make a recommendation to the Committee, which will determine whether the member will be recused from the engagement or purchase or redemption decision. Whether the member will be recused will depend on the facts and circumstances. The relevant inquiry will include, among other factors, whether the University's decision to engage, invest, redeem, or take no action, could have an impact on the FPC member's relationship or investment in any material way.

5.3 This policy also applies to family members and related entities of FPC members.

5.4 If an FPC member is unsure whether his or her relationship with a potential or current Investment Advisor or investment with a potential or current Investment Manager merits disclosure, the FPC member will err on the side of caution and disclose the relationship to the Chair. This policy is not intended to discourage FPC members from bringing investment opportunities to the FPC for consideration, but is meant to provide the FPC and the Board with full transparency.

7. Disclosure, Abstention and Recusal With Respect to Other Potential Conflicts of Interest

Other relationships that are not specifically described in paragraphs 1 to 5, above, may still present a conflict of interest, including where an FPC member's independent judgment regarding the Investment Advisor or Investment Manager *could* be impaired by virtue of the relationship. Potential conflicts of interest must be disclosed to the Chair of the FPC, who will

consult with the investment staff and legal counsel, as appropriate, to determine whether the Committee member must abstain or recuse himself or herself from consideration of the matter.

8. Recusal Process

If it is determined that abstention or recusal is required, then after disclosure of the potential conflict of interest and all material facts to the FPC, and after the member responds to any questions that the FPC may have, the member will be asked to abstain or be recused from the meeting while the appointment of the Investment Advisor or Investment Manager is discussed and voted upon. All such abstentions and recusals will be contemporaneously documented in the minutes of the FPC meeting. While the member may not vote on the issue to which the potential conflict of interest relates, he or she may be counted in determining the presence of a quorum for purposes of the vote.

9. Indirect Relationships

For the sake of clarification and guidance, indirect financial or business relationships ordinarily will not rise to the level of a material conflict of interest. For example, a member of the FPC who is an employee or otherwise affiliated with a brokerage firm or other third-party service provider with whom an Investment Advisor or Investment Manager does business ordinarily would not be considered to have conflict of interest. If an FPC member is uncertain as to whether a business or familial relationship is so material as to give rise to a conflict of interest, the member is encouraged to disclose the relationship to the Chair.