Long Term Investment Policy

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Overview

This policy document establishes the objectives and parameters for managing the University's long-term investment funds. The market value of these funds at mid-September 2021 was in excess of £20 million.

Management

The Investment Committee, reporting to Finance Committee, is responsible for management of the long-term investment portfolio, development of investment strategy, appointment of investment managers and advisors, and performance monitoring.

Management of the long-term investment fund is assigned to investment management specialists, who are appointed by tender on a five yearly contract. Sarasin & Partners were appointed as the investment managers following a tender process in 2019/20 with effect from 1st April 2020. The contract will expire on 31st March 2023 with a possible two-year extension to 31st March 2025.

Independent specialist advice is also received by the University to monitor, review and report on the performance of the investment manager. Stanhope Consulting is the current appointed investment advisor to the University and has a five-year contract which runs from 1st September 2019 to 31st August 2024.

Investment objectives

- The investment objective is to achieve a total return of CPI + 4% p.a. over the long term. There is no specific income target, and all income is reinvested.
- There is no need for liquidity and the University has a long-term time horizon (in excess of ten years).

Risk tolerance

- The University is willing to accept some volatility in order to achieve its desired investment returns over the medium to long term.
- It would be prepared to accept potential losses of up to 15-20% in any one year.

Constraints

- Funds need to remain readily realisable in the event that circumstances change but there is no current expectation of need to draw upon the funds.
- The University is exempt from UK income and capital gains tax. Tax considerations are therefore not a constraint upon investment strategy.

Strategic asset allocation/benchmark

The strategic asset allocation of the long-term portfolio was reviewed in the summer of 2019 and will change modestly on the move of the management to Sarasin & Partners to include a higher allocation to overseas equities and a lower allocation to UK equities. There is also a new allocation to UK commercial property.

The composition of the new strategic asset allocation/benchmark is shown in the table below. This becomes effective on the date of the transition of the portfolio to Sarasin.

%	Previous Allocation	New Allocation	Permitted ranges	Benchmark indices
UK gilts	0	5	--	BofAML UK Gilts All Stocks
Index linked bonds	10	5	--	BofAML UK Index Linked All Stocks
Corporate bonds	10	5	--	BofAML Sterling Corporate Bond
Total bonds	**20**	**15**	**5-30**	---
UK equities	40	20	10-30	MSCI UK IMI
Overseas equities (hedged)	--	10	35-65	MSCI ACWI ex UK (GBP hedged)
Overseas equities	30	40		MSCI ACWI ex UK
Total equities	**70**	**70**	**55-85**	---
Property	**--**	**5**	**0-10**	MSCI All Balanced Property Funds (1Q lagged)
Alternatives	**10**	**10**	**0-20**	CPI+1%
Total	**100**	**100**	**---**	---

The investment manager's objective is to outperform the benchmark by at least 1% per annum (net of fees) over rolling three year periods.

Socially responsible investment and sustainability

The University is committed to sustainability. In its 2020 Strategy, its Mission is defined as, "To drive sustainable social and economic development through outstanding teaching, research and innovation." Its Strategic Objectives include, "We will have embedded a consideration of our contribution to the UN Sustainable Development Goals into all aspects of our research, learning, teaching and operations."

This Investment Policy is designed to support the University's overarching ambition for sustainability.

The University expects its investment managers to manage the portfolio in line with best practice in terms of environmental, social and corporate governance (ESG) issues. Positive investment screening opportunities will be considered on a continual basis to tailor the approach further as and when appropriate.

Accordingly, Sarasin & Partners will pursue its "Climate Active" strategy for security selection while the strategic asset allocation will remain bespoke to the University, as set out in the section above.

The Climate Active strategy is designed for investors who are seeking attractive and sustainable investment returns by investing in a way that is aligned with the Paris Climate Accord, keeping temperature increases well below 2°C and ideally 1.5°C while also pushing companies to align with the Paris goals.

Specific features of the approach are shown below.

- no investment in companies with 5% or more of their turnover involved in the mining of thermal coal or tar sands
- following engagement, no investment in companies that needlessly emit significant quantities of carbon into the atmosphere, or which do not take seriously the transition to a low carbon economy
- zero tolerance on tobacco production and manufacturing of tobacco related products
- no investment in companies that generate significant turnover from the manufacture of arms, alcohol, gambling and pornography. An initial threshold of 10% of turnover is set, but in practice typically 1-2% is arrived at through the application of Sarasin's ethical investment framework
- qualitative judgements to be considered on a regular basis by the Climate Active Advisory Panel

The above exclusions exclude circa 5% of companies in the MSCI All Countries World Index (February 2021). Sarasin & Partners does not consider the restrictions to be too material that it would impact negatively on longer-term investment performance.

All third-party funds owned are screened on initial purchase and are reviewed on a regular basis to make sure they adhere to these rules.

Further investment and divestment are subject to a case-by-case assessment depending on the vulnerability of each company to climate change, and whether it will be able to develop a climate-aware strategy that will deliver attractive long-term returns for shareholders.

The University has a free-standing Sustainable Investment Portfolio valued at £0.9 million as at mid-September 2021, which is invested in the Impax Environmental Markets Fund. This is held in a non-discretionary portfolio by the investment manager.

In the interests of transparency, the University will produce twice annually a list of all companies and funds in which long term investment funds are invested. This list will be available on request from the University's Chief Finance Officer.

Any representative body within the University (i.e. Student Union, Trade Union or Committee) may draw attention to any investment in a company or fund that is considered to be unethical, socially or environmentally irresponsible. Representations should only be made on the basis of evidence that a company's activities or values are clearly far removed from the University's core values and that these give serious grounds for concern.

The Investment Committee will consider any representations in consultation with the appointed investment manager against the following criteria:

- Is the complaint substantiated?
- Is it contrary to the University's values, goals or mission?
- Is it of significant wider social, environmental or humanitarian concern?
- What is its impact on portfolio risk, diversification and returns?

The Investment Committee will make the final decision to continue or discontinue with any investment and will communicate the reasons for this to the group raising the concern.

Policy review

This policy will be subject to annual review by the Investment Committee.