



UNIVERSITY OF
BATH

Investment Policy

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INTRODUCTION

- 1.1 The University has authority to exercise investment powers under Section 3 (w) of the Charter of Incorporation:

“To act as trustees or managers of any property, legacy, endowment, bequest or gift for the purpose of education or research or otherwise for the furtherance of the work of the University, and to invest any moneys representing any such property or fund not immediately required for the purpose aforesaid in accordance with the provisions of the Statutes.”

and the power of Council to exercise this function on behalf of the University is described in Section 17.16 of the Statutes:

“To invest any moneys belonging to or held by the University in any manner as the Council shall from time to time think fit, in any part of the world, or in the purchase of freehold or leasehold hereditaments in the United Kingdom, including rents; provided that in the case of moneys held by the University as trustees the powers conferred by this paragraph shall be exercised subject to the provisions of the governing trust instrument.”

The University's investing activities are constrained by any limitations, caveats or restrictions specified by any relevant regulations and any such limitations have been incorporated into the annual Treasury Management Strategy Statement.

- 1.2 This investment 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
 - 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
- 1.3 Before the start of each financial year (or as soon as possible thereafter), an Annual Investment Strategy ¹ shall be drawn up for the following financial year. The Strategy and any variations are to be approved by Finance Committee.

¹ The Annual Investment Strategy is contained with the Treasury Management Strategy Statement which is approved annually by Finance Committee.

DELEGATION OF AUTHORITY

2.1 The assignment of responsibility for investment decisions in the University is as follows:

i. *The Finance Committee* contains within its terms of reference the following responsibility:

“To supervise the University’s investment activity in the following ways:

(i) To determine the allocation of funds for investment, indicating the liquidity requirements attached to the funds.

(ii) To consider new investments in excess of £10 million and to make a recommendation to Council.

(iii) To receive, for information, reports of new investments between £1 million and £10 million approved by the Vice-Chancellor.

(iv) To determine the strategic orientation, risk profile and allocation policy of funds under its management.

(v) To appoint fund manager(s) and receive reports on the performance of investments under their management.”

The Investment Group is an informal group which may advise the Vice Chancellor and the Finance Committee on Investment and Treasury matters and receive reports from fund managers.

ii. *Delegated officers* of the University participate in: the formulation and execution of investment policy, objectives, and guidelines; evaluating investment managers; reviewing such managers over time; measuring and reporting investment performance; and other tasks as deemed appropriate. They execute day to day financial transactions within delegations and consistent with the provisions of this policy. The delegations from Council that relate to investment activity are Schedule 1 of this policy.

iii. *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. The approved investment managers are specified in the annual Treasury Management Strategy Statement.

2.2 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.

ASSIGNMENT OF RESPONSIBILITY FOR INVESTMENT MANAGEMENT

- 3.1 The Finance Committee is responsible for the investment of the funds of the University.
- 3.2 In exercising these responsibilities, the Finance Committee 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.
 - v. Have regard to the obligations imposed by the law on Trustees in making investment decisions. A summary of these responsibilities is attached at Schedule 3.
- 3.3 The Finance Committee will ensure that the Strategy in the University's Code of Ethics is followed in the selection of either a Fund Manager, a direct investment in a company or in an investment in any other permitted asset class. The Committee will achieve this by:
- i. Negatively or positively screening investments, being Fund Managers, direct investments in companies or in any other permitted asset class, with regard to the Code of Ethics where this does not reduce the financial return on investment. However, where an investment is inconsistent with the Code of Ethics the Finance Committee may choose not to invest even when this may reduce the return. In making this decision the Committee will refer to the Code and to its test of reasonableness.
 - ii. Using its influence with companies or Fund Managers in which the University invests to raise awareness of ethical considerations.
 - iii. Provide an opportunity to review existing investments under this policy.

- 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.

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.
- 4.3 The University may employ one or more investment managers to attain its investment objectives.
- 4.4 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, alternative options and due diligence. A formal report on the selection process should be presented to the Finance Committee.
- 4.4 Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

INVESTMENT OBJECTIVES

5.1.1 The primary objectives in the investment of assets are to ensure that funds invested are available to meet:

- a. The short term liquidity requirements
- b. The medium term requirement to finance the University's capital and revenue investments.
- c. The requirement for any long term investments to exceed the target real rate of return

5.1.2 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. 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. Property: The University will invest in property to either;
 - i) Advance the University in the achievement of its strategic aims
 - ii) Achieve a return commensurate with investments within this asset class

5.2 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 inasmuch as it is consistent with the volatility of a comparable market index.

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

5.4 Asset class benchmarks are to be agreed with the investment managers(s) as part of the written contract with them and reviewed in terms of the contract.

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).

LIQUIDITY AND CASH MANAGEMENT

- 7.1 To minimise the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Director of Finance 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.
- 7.2 The Director of Finance will provide forward cash flow estimates to every meeting of the Finance Committee.
- 7.3 Based on these estimates the Finance Committee will determine broad targets for the level of available investment funds that are to be held in cash or cash equivalent forms.

ASSET ALLOCATION

- 8.1 Asset allocation refers to the balance of investments in a portfolio, for example, the mix of investments in cash versus in fixed term bonds or equities.
- 8.2 The general policy shall be to diversify investments so as to provide a balance that will enhance total return whilst avoiding undue risk concentration in any single asset class or investment category.
- 8.3 Finance Committee shall periodically review the allocation between asset classes in the light of prevailing market conditions and University preference.

INVESTMENT GUIDELINES

- 9.1 The University will undertake its investment activities by employing only those instruments, methods and techniques detailed in the annual Treasury Management Strategy Statement, and within the limits and parameters defined in the Treasury Management Policy.

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. Financing and operating decisions may therefore significantly increase or decrease the investment returns to the University.
- 10.2 Financing decisions, for example, the offering of internal loans, should be evaluated against benchmark returns for investment funds and internal loan and other similar financing decisions should be required to deliver a return equal to the investment benchmark. If this cannot be achieved, then consideration should be given to external financing. Essentially, internal loans should be charged interest at the rate of the benchmark for investment funds ie. the cost of capital is set at the investment benchmark.
- 10.3 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.
- 10.4 All major cash flows arising from financing or operating decisions which impact on available funds for investment are to be reported in the monthly investment report.

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.
- 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:
1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
 2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
 3. Significant qualitative changes to the investment management organisation.

REPORTING AND OVERSIGHT

- 12.1 An Investment Report will be obtained from the investment managers and submitted to the Finance Committee at each of its meetings.
- 12.2 The Investment Report will contain 4 basic elements:
1. Asset Allocation Information - Asset values and asset class percentages versus target allocation and ranges.
 2. Investment Performance - Investment returns versus performance benchmarks.
 3. Guideline Compliance - A statement that each portfolio conforms to guidelines or identification where variances occur.

SCHEDULE 1

INVESTMENT DELEGATIONS

Delegated Power	Exercised By
Approval of Investment Policy, Treasury Management Policy and annual Treasury Management Strategy Statement	Finance Committee
Approval of investment strategy	Finance Committee
Application of approved strategy	Director of Finance
Approval of counterparty list	Finance Committee
Appointment of Investment Manager	Council
Authorisation of terms of reference of external managers	Finance Committee
Authorisation of cash transfers to/from external cash managers	Director of Finance (or her nominee)
Authorisation of cash transfers to/from external long-term fund managers	Investment Signatories (two signatures)
Approval of loan facilities	Council
Approval of opening bank/building society accounts	Council
Approval of Bank and dealing mandates	Council
Amendments to bank and dealing signatories	Finance Committee
Drawing down of approved loan facilities	Director of Finance

SCHEDULE 2

Trustee Act 2000 – Standard Investment Criteria

NB This is a summary of the relevant terms. For further detailed information apply to the University Secretary or Legal Adviser.

Trustees (which include for this purpose Members of the Finance Committee) must have regard to the following investment criteria:

- (a) the suitability to the trust (i.e. the University) of investments of the same kind as any particular investment proposed to be made or retained and of that particular investment proposed to be made or retained and of that particular investment as an investment of that kind, and
- (b) the need for diversification of investments of the trust (i.e. the University), in so far as is appropriate to the circumstances of the trust.'

In brief this means that the Trustees have to:

- (a) consider whether a particular **kind** of investment is suitable e.g. an investment trust and whether the investment **in question** is itself suitable e.g. X Co investment trust and
- (b) look at the investment portfolio as a whole to ensure sufficient diversity.

The Trustees have to consider these matters at the time of making new investments and **regularly** to consider whether it is prudent to retain them.

It is also advisable to obtain 'proper' advice (i.e. from an appropriately qualified person) when making investments and on whether the investments should be varied. The advice should be given in the context of the standard investment criteria set out above.