
INVESTMENT POLICY

Introduction

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 Report (TMR).

Purpose of Policy

This investment policy aims to:

- Define and assign responsibilities for investing activities
- Establish a clear understanding of the University's investment goals and objectives.
- Offer guidance and define classes of assets suitable for investing
- Guidance on hedging of investments
- Establish a basis of evaluating investment results and the performance of the independent external advisor.
- Responsibility Investing and exclusions

The University has sought to follow best practice in setting this policy and has engaged external advice to support it and engaged with a range of stakeholders.

Define and assign responsibilities for investing activities

The University segments its excess cash into three time-based allocations being the duration of time it expects to be able to retain this cash based on projected cashflows. These allocations are

summarised in the table below and the investment delegations are also noted. Finance Committee note the expected available funds report at each of its meetings.

| Segment/Description | Purpose | Time frame | Delegated investment approval |
|---------------------|--|---|-------------------------------|
| Short-term | Manage operational liquidity, following SLC and other receipts | Less than 1 year | Director of Finance |
| Medium-term # | Investments in infrastructure | Between 1 and 3 years | Under scheme of Delegation |
| Long-term # | Repay loan borrowings and investments in large infrastructure | Over 3 years (expectation that it will be over 5 years) | Under scheme of Delegation |
| Endowment fund | Permanent (capital retention is required) and expendable funds | In excess of 10 years | Under scheme of Delegation |

The Council scheme of delegation requires that investments of between £2.0m & £10.0m require Finance Committee approval, investments over this value require Council approval.

Short-term cash that estimated cash flows indicate will be required within 12 months is held in either cash or cash funds where liquidity is within one day, fixed term or certificate of deposits whose terms are less than 12 months. ISC and then Finance Committee annually approve the counter parties and their limits through the Treasury Management Report (TMR) and the operational management of this segment is delegated to the Director of Finance.

Medium, Long-term and Endowment investments are the responsibility of the ISC which is a sub-committee of Finance Committee.

Both Committees have terms of reference that can be found through the above links.

[\(Investment Sub-Committee \(bath.ac.uk\)\)](#)

[\(Finance Committee \(bath.ac.uk\)\)](#)

Finance Committee shall receive a report from ISC and the approved ISC minutes after every meeting of ISC.

ISC shall recommend to Finance Committee the appointment of an independent external advisor for a maximum period of five years after which the contract should be subject to a full market review.

The independent external advisor role is to advise ISC on all matters concerning the University's endowment and long-term funds, the independent external advisor is not a member of ISC. All investment decisions are taken by ISC members only.

The Treasurer shall Chair meeting of Investment Sub Committee.

Investment goals and objectives.

Investments shall be made solely in the interests of the University.

Investments shall be made to obtain the best financial return for the University, consistent with prudence, environmental, social and governance (ESG) considerations and the need to ensure adequate spread and diversification of assets and risk.

The University may employ investment advisor(s) and manager(s) to attain its investment objectives.

ISC will ensure that each investment has an investment objective and that an appropriate selection process is undertaken which considers the University's overall strategy, investment principles, alternative options, due diligence and ESG criteria. A formal report on the selection process should be presented to Council and/or Finance Committee for approval as per the limits within the scheme of delegation. [Council and Senate Joint Scheme of Delegation \(bath.ac.uk\)](http://bath.ac.uk)

Cash is to be always employed productively, by investment in short term cash equivalents to provide security of capital, liquidity, and a return.

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

- a. The **short-term** (cash) is invested in secure deposits held by counter parties at limits approved by Finance Committee in the TMR. Cash preservation and liquidity are essential and therefore no capital risk is tolerated. Targeted returns are therefore based on based bank rate plus 30 bps as a margin.
- b. The **medium-term** requirement to finance the University's capital and revenue investments. Medium term investments made either to cover the carrying cost of loans received in advance of spending or cash needs of the University over a period of up to 18 months. Cash preservation and liquidity are important, but some risk may be appropriate to generate higher returns than cash. Targeted returns are therefore based on cash plus a margin. Medium-term investments may return a regular/fixed income to the University. The target returns and acceptable risk levels (as measured by expected volatility) are set out in the table below. Risk tolerance is based on a forward-looking assessment, as assessed by the ISC, and the value of investments falling by more than this level would not necessarily trigger any changes to the investment strategy.

| Target Return | Volatility Risk Tolerance |
|----------------|---------------------------|
| Cash plus 2-3% | Up to 7.5% |

- c. **Long-term investments** have a holding duration of at least three years, as the need for the cash is not immediate and the objective is for long-term investments to grow capital value over the period. Targeted returns are therefore based on CPI plus a margin (higher than on medium-term), but the level of risk should not exceed a pre-determined level. The target returns and acceptable risk levels (as measured by expected volatility) are set out in the table below. Risk tolerance is based on a forward-looking assessment, as assessed by the ISC, and the value of investments falling by more than this level would not necessarily trigger any changes to the investment strategy.

| Target return | Volatility Risk Tolerance |
|---------------|---------------------------|
| CPI plus 3% | 15 - 20% |

- d. **Endowment investments** have a holding duration of at least 10 years for expendable, but a portion of the fund is permanent where capital is held in perpetuity. There is need for income to be taken, in a range of 3-4% (circa £220k pa) to support the spending commitments given to donors but long-term capital appreciation is the objective.

| Target Returns | Volatility Risk Tolerance |
|----------------|---------------------------|
| CPI plus 4% | Up to 20% |

ISC will select asset classes and fund managers that are expected to achieve the overall risk and return targets set out above. Neither target is to be used as an absolute measure of performance of an individual fund manager within that segment. Investment return is to be measured based on total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Asset class benchmarks and risk tolerances are recommended by investment managers(s) and the appropriateness of these is advised on by the independent external advisor. Benchmarks are expected to align to the nature of each investment manager's specific mandate, for example using global equity indices for global equity mandates, however for alternative investments, the ISC may choose to use an absolute target return for benchmarking purposes.

ISC will approve the asset allocation for long-term and endowment funds following guidance from the independent external advisor, ISC will ensure the allocation is reviewed at least triennially and receive performance monitoring reports including allocation and risk reports from the independent external advisor at each meeting of the ISC.

ISC will ensure diversity in long-term and endowment segments when allocating funds for investments so that the segment is expected to achieve the total expected returns whilst avoiding undue risk concentration outside the tolerance for the segment.

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 agreed benchmark for each fund in 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).

Classes of assets suitable for investing

The **short-term** (cash) assets classes include the following.

- Bank, Cash, Fixed deposit, and Notice Accounts: To provide absolute security and accessibility for regular transactions.
- Money Market, Cash Plus funds and Certificates of Deposit: To provide a high degree of security, accessibility, and a competitive interest rate.
- Bonds, Gilts and Unit Trusts: To provide a high degree of security and a return in excess of base rate.

Counter Parties and limits are approved in the TMR.

The **medium-term** asset classes include the following.

- a. Bank, fixed deposits, and notice accounts: To provide absolute security and accessibility for regular transactions.
- b. Bonds, Gilts, including Fixed Income Bonds and Unit Trusts: To provide a high degree of security and a return in excess of an agreed benchmark.

The **long-term and endowments** asset classes include the following.

- a. Bonds, Gilts and Unit Trusts: To provide a high degree of security and a return in excess of an agreed benchmark
- b. Equities: To exceed the target real rate of return over a suitable period.
- c. Alternatives, including but not limited to Unit Trusts, Hedge Funds and Private Equity and debt markets.
- d. 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

The above asset classes may be varied through the approval of the TMR.

Hedging Guidance

ISC recognises the global nature of the investment funds it has and that currency fluctuations can have a material impact on the returns made by these funds.

ISC will make investments in GBP share classes where these are available with the investment funds.

Where investment funds only offer non-GBP share classes, or when some of the underlying assets in the investment fund are not priced in GBP, then ISC will consider currency hedging on a case-by-case basis, noting the decision regarding whether to hedge will depend on the nature of the asset class in question. Any direct hedging arrangements will be put in place typically on an annual basis and their renewal should be approved by ISC in advance.

Basis of evaluating investment results and performance.

Performance reports generated by the independent external advisor based on information provided by the funder manager monthly, this should include the agreed benchmarks as determined by ISC and historical performance. Reporting should be by total long & medium-term portfolios. 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 University intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a fund manager for any reason including the following:

- Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organisation.
- Any other reason the university considers appropriate.

Responsible investing.

The University is committed to ensuring that its funds are managed sustainably and with integrity, having due regard to ESG issues. The ISC will adopt an ethical decision-making criteria for its investment while minimising any negative impact on its investment returns. Investment decisions informed by socially responsible and ethical considerations will also consider the requirement for trustees to maximise returns on investment for the charitable benefit of the University.

The University is committed to ensuring that its investments are part of an integrated approach to achieving carbon commitments namely:

- Net zero carbon emissions on Scope 1 & 2 emissions by 2030
- 50% reduction in Scope 3 emissions by 2030
- Net zero carbon emissions on Scopes 1,2 & 3 by 2040

Monitoring Impact

ISC commits to triennial reporting of carbon emissions from the long and medium-term investment portfolio with the aim of reducing the emission per £ invested throughout the period of the University's carbon action framework. Reducing absolute carbon emissions of the investment fund is one of many measures being adopted by the University to contributed/achieving a Net Carbon Zero position by 2030.

The University considers that ESG factors have a material impact on investment risk and that good stewardship can create and preserve value for the longer term.

The University is mindful of the need to reduce and, ideally, eliminate, corporate behaviour leading to:

- environmental degradation
- armament sales to military regimes
- human rights violations
- the institutionalisation of poverty through discriminatory market practices
- racial or sexual discrimination
- tobacco production, cultivation, and manufacture
- the exploitation of workers, and
- the giving or receiving of bribes.

ISC will use all reasonable endeavours to ensure that it operates its investment policy in a way that is consistent with the University aims listed above in the context of the trustees' duty to maximise returns. ISC will look to its investment advisors, in the first instance, to use their resources and expertise in the investment decisions. Utilising the specialist knowledge of the investment managers

will provide ISC with the opportunity to make a positive contribution towards sustainability including alternative investments in its investment portfolio.

Direct Investments

The University will exclude direct investments in the following sectors to support the objectives above.

| |
|---|
| Market Sector |
| Tobacco – in recognition of the conflict with medical research objectives |
| Coal, Oil, Tar sands or the extraction of petroleum – in recognition of environmental degradation |
| Pornography |
| Gambling |
| Contentious Armaments (anti-personnel mines, cluster weapons, biological and chemical weapons) |

Any direct exclusions will be reviewed annually and may be updated through the TMR.

Pooled Investments

The ISC have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in line with this policy and in accordance with their own corporate governance policies and current best practice. It is not feasible at present to pursue an investment policy for pooled instruments where no indirect investment in companies that are multi sectoral in nature, and are excluded from direct investments, could occur. However, the ISC will pursue the greatest possible transparency on this and review at least annually with the investment advisor how investment managers have chosen to engage with any underlying multi sectoral business(es) in order to have a greater level of influence over and assure improving future ESG commitments and outcomes, rather than divesting/not investing.

Reporting

ISC report annually to Finance Committee in November each year on its activities over the previous financial year, this will include but not be limited to

- a summary of Investment performance against benchmarks and details of any fund manager selection
- Carbon Monitoring trends using a commonly understood metric (noting that this is a developing area and metrics, and methodologies are evolving), it should be noted the full Mercer reporting is triennial.
- ESG actions and summarised reports from fund managers.

Minutes of ISC will be sent to Finance Committee for monitoring.

Evaluation of the Independent external advisor.

ISC is responsible for recommending to Finance Committee the appointment of the independent external advisor and the duration of the appointment.

ISC will at least once a year hold part of one meeting without the presence of the independent external advisor for the purpose of evaluating the performance of the advisor and making recommendations as appropriate for improvement or variances to the service provided.

The ability of the investment advisor to support the ISC in its ESG commitments is an important consideration when appointing the adviser.

Related Policies and Procedures

Triennially the ISC members contribute to a beliefs survey that is a reference point in the decision-making process, which can and should help guide the University's governance and strategic management and therefore forms the foundation to the Investment Policy.

Document Control Information

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