Gonville & Caius

# Gonville & Caius College

# Registered Charity Number 1137536

# Investment Policy Statement

February 2023

# Investment Policy Statement

## 1. Introduction

This Investment Policy Statement sets out the principles that govern management of the investments held by Gonville & Caius College. These principles derive from Statute 46 of the Statutes and the related Ordinance. It is the responsibility of the College Council. The Investments Committee will review this document annually and make recommendations.

## 2. Investment Objectives

### *2.1 Purpose of Investment Funds*

#### *Permanent Endowments*

The purpose of the permanent endowments is to generate an annual income stream to support the College's core mission of maintaining, conducting, supporting and developing Gonville & Caius College as a place of education, religion, learning and research. Some permanent endowments are restricted but that has no impact on the investment policy for those funds.

The income stream generated by the permanent endowments should treat equitably current and future generations of members and should assume that the College will continue in perpetuity.

The primary investment objective is to produce the highest return consistent with the College's risk appetite. The investment and income withdrawal strategies together should preserve the Endowment's long-term real capital value and aim to ensure inter-generational equity.

A subsidiary aim is to enhance the value of the capital of the permanent Endowments for future beneficiaries. In 2022 the College Council approved the College's Finance Guiding Principles which included the aspiration to increase the Endowment in size to £330 million (measured by purchasing power at that time). It is expected that donations from Alumni and development gains arising from active management of the property assets within the Endowments will be the principal drivers of this growth.

#### *Expendable endowments and general unrestricted gifts*

The capital of expendable endowments may be expended by decision of the College Council. Given the time-frame for expenditure of such funds, capital preservation is essential to their investment. Given the small size of such funds and cash available within the overall portfolio, separate management of such funds is not required but the availability of cash will be kept under review by the Senior Bursar and regularly reported to the Investments Committee.

### *2.2 Spending Rule*

Under Statute 46(6) the College Council may appropriate for expenditure so much of the fair value of the property (the Expendable Amount) as it considers in its discretion is prudent in all the circumstances having regard to the total return achievable and reasonably expected in the long term from the investment assets. The Expendable Amount for a financial year is determined under the method described in this section and known as the "Spending Rule".

In relation to the permanent Endowments of the College the Spending Rule should:

- provide a stream of relatively stable income to support the College's objects
- impose a fiscal discipline to protect the value of the Endowment in real terms
- provide sums to cover the costs of managing investments where they are not chargeable to capital.

In the Spending Rule (and elsewhere in this document) the following definitions apply:

- The "Yale Rule for Direct Property" is 30% of the amount derived by applying the Withdrawal Percentage to the value of the Direct Property at the Measurement Date net of any debt related to those assets and 70% of the amount so computed for the prior year as uplifted by College Inflation;
- The "Yale Rule for Financial Assets" is 30% of the amount derived by applying the Withdrawal Percentage to the value of the Financial Assets at the Measurement Date and 70% of the amount so computed for the prior year as uplifted by College Inflation;
- The "Withdrawal Percentage" is the percentage decided each year by the College Council, on the advice of the Investments Committee and the Finance Committee, taking into account future expected returns over the long term for the assets to which it is applied;
- "Direct Property" is real property and other similar assets which are directly held by the College and not used for operational purposes;
- "Financial Assets" are investments in the permanent Endowments other than Direct Property;
- The "Measurement Date" is the 31st March in the previous financial year; and
- "College Inflation" is the average, weighted by relevant expenditure in the most recently available statement of comprehensive income, of (i) the cost of living award for wages and salaries and the effect of changes in on-costs applying to them; and (ii) the annual change in the Consumer Prices Index for a month used consistently applied to expenditure other than staff costs;

The Expendable Amount for permanent Endowments is the sum of amounts A, B and C, where:

- A is the lower of
  - (i) income and (ii) capital sums received not specifically identified for reinvestment arising from Direct Property net of related annually recurring management costs, interest on debt related to Direct Property and an appropriate allocation to a notional sinking fund for repairs; and
  - the outcome of the Yale Rule for Direct Property; and
- B is the outcome of the Yale Rule for Financial Assets
- C is the amount required to cover costs of investment management which are not chargeable to capital.

In applying the Spending Rule to calculate the Expendable Amount, material additions to the Corporate Capital or General Capital of the College or material withdrawals from the General Capital of the College will be taken appropriately into account.

The Expendable Amount for expendable Endowments is such amount (which may be up to 100% of any particular expendable Endowments) which arises from the budgetary requirements of the College, as recommended by the Finance Committee and agreed by the College Council. However, this must be considered in the context of the principle of using general donations to grow the Endowment.

### 2.3 Target Return

To meet the investment objectives, the Endowment must deliver an annualised return over rolling five-year periods after all costs sufficient at least to cover the Spending Rule and College Inflation (the 'Target Return').

This required Target Return will be reviewed regularly but will not be adjusted every time the inflation rate changes.

The Target Return requirement includes:

- the impact and cost of any outstanding debt held against the portfolio and
- recurring management fees

and excludes:

- costs of strategic improvement of land (where the cost will be deducted from the capital value but any improvement achieved will ultimately be reflected in the cash-flows arising from the land)
- current year donations which will be used to grow the Endowment and not relied upon to preserve its capital value.

The Investments Committee has set an additional goal of outperforming, over a rolling period of five years, net of all investment costs and on a total return basis, a composite benchmark based on the Strategic Asset Allocation target allocations and the performance of each constituent asset class benchmark.

### 2.4 Risk

The endowment makes a significant contribution to the College's annual income and this vital funding needs to be preserved in perpetuity. The key risk to the long-term sustainability of the endowment is inflation and the assets should be invested to mitigate this risk over the long term, with a high allocation to real assets (equities and property). As a long-term investor the College is prepared to incur the risks consistent with its pursuit of this policy and recognises there will be fluctuations in the market value of investments including the possibility, from time to time, of significant falls in value.

The endowment should be diversified by asset class, by manager and by security. Credit ratings of fixed income investments should be consistent with the overall risk profile. Cash deposits should be diversified by counterparty and reviewed periodically by the Investments Committee.

## 3. Investment Strategy

### *3.1 Strategic Asset Allocation*

The College considers separately the allocation of assets within the Direct Property portfolio and the Financial Assets portfolio.

*Direct Property*

The College's Direct Property investments principally represent an inherited estate accumulated over five hundred years. In many cases the investments are in practice inalienable because they are integrated into operational assets or parts of operationally important land holdings. The portfolio is illiquid and not immediately susceptible to the general principles of asset allocation. Instead the challenges and opportunities of the portfolio are closely managed, independently of the Financial Assets, to enhance income and property values.

*Financial Assets*

These are subject to a Strategic Asset Allocation proposed by the Investments Committee and agreed by the College Council which responds to the investment objectives, return target and risk appetite. It acknowledges the College's Direct Property portfolio but will generally be set independently of it. It includes a target, minimum and maximum allocation for each asset class.

Although intended to serve for at least a five-year period, the Strategic Asset Allocation will be reviewed annually by the Investments Committee to ensure it remains fit for purpose. The portfolio may be rebalanced to stay within parameters set within the Strategic Asset Allocation at the discretion of investment managers. To control transaction costs, the portfolio will not always be rebalanced back to the central Strategic Asset Allocation position.

In extreme market environments, such as when one asset class significantly outperforms or underperforms other asset classes, tactical rebalancing may also be required to maintain the desired level of portfolio risk.

### *3.2 Liquidity*

The Endowment aims as a long-term average to have no more than 70% of the aggregate market value of the Endowment's value (including property) invested in illiquid assets, defined for these purposes as assets that cannot be liquidated for cash within 52 weeks. However, it may opportunistically hold up to 80% in illiquid assets for a limited period. The purpose of the minimum liquidity level is to ensure that sufficient amounts of cash can be withdrawn from the Endowment to cover the Expendable Amount without triggering the sale of assets at depressed prices.

The 70% limit is as at the date the commitment is made. If, as a consequence of market fluctuations, the proportion subsequently rises above 70%, the Investments Committee will determine how and when to rebalance the portfolio's exposure to illiquid assets.

### *3.3 Borrowing and Leverage*

The Investments Committee will review the risk implied from each asset managers' use of underlying leverage within assets, particularly private fund allocations.

Borrowing by the College may in certain circumstances be appropriate. The investment managers may bridge switches from one fund to another where the first fund has a waiting period for the release of cash where the borrowing is not normally for more than £5m and not expected to be outstanding for more than 6 weeks. Additionally in the context of, in particular, property acquisitions or development land decisions to take out borrowings are referred to the College Council.

### *3.4 Currency*

The base currency is Sterling.

The College does not expect to enter into currency hedges but may do so on advice as market conditions change.

### *3.5 Taxation*

The College is a UK charity and thus mainly exempt from taxation in most jurisdictions. Reasonable efforts will be made to ensure that the Endowment enjoys the benefit of its tax-exempt status in respect of its investments.

### *3.6 Responsible Investment*

As long-term investors the College will include environmental, social, and governance issues among the many factors that inform its investment decision-making and manager selection. The College has a Statement of Investment Responsibility of which the current version may be found in Appendix 1.

## 4. Investment Management

The College Council recognises that the Investment Strategy for Financial Assets requires depth of resource and expertise which the College does not have. Therefore it engages investment managers and delegates authority to them to manage the assets under a discretionary investment management agreement and to provide custody of those assets. The Investments Committee maintains regular direct contact with the appointed investment managers. This includes reporting to the College quarterly and meeting with the Investments Committee at least termly.

In relation to the Direct Property, the College retains advisers but does not delegate authority over investment decisions. It appoints specialists to advise it according to the needs of individual properties. It retains managers to deal with various routine day to day matters on its behalf.

## 5. Performance Measurement

The performance of the overall portfolio, after all costs, will be evaluated against the return target, the Strategic Asset Allocation composite benchmark and a general 70/30 equity/bond portfolio.

Given the long-term time horizon of the Endowment, performance of all assets will be evaluated over rolling five-year periods. Declines in the Endowment's capital value that have persisted for less than five years will not *per se* result in fundamental changes to investment strategy.

The actual performance of the Endowment and the underlying asset class strategies and managers will be reviewed by the Investments Committee and the Investments Property Sub-Committee under their terms of reference at least once per term formally and informally as needed during the Long Vacation under the management of the Senior Bursar and available committee members.

## 6. Governance

### *6.1 General Meeting*

In pursuance of its rights under the statutes the General Meeting will set the rate for College Inflation.

### *6.2 College Council*

In pursuance of its obligations under public law and the Statutes of the College, the College Council will:

1. Appoint and remove members of the Investments Committee
2. Appoint and remove members of the Investment Property Sub-Committee
3. Approve the Investment Policy Statement, Strategic Asset Allocation and the Withdrawal Percentage
4. Agree the terms of delegation of authority to investment managers
5. Appoint and remove investment managers
6. Consider requests for waivers from investment policies.

### *6.3 Investments Committee*

The Investments Committee is authorised by the College Council to act on its behalf, subject to this Investment Policy Statement. The Investments Committee in turn is authorised to delegate certain responsibilities to the Investment Property Sub-Committee and to its investment managers and may procure external professional advice. The Investments Committee's responsibilities are:

1. To report directly to the College Council
2. To recommend the Investment Policy Statement and Strategic Asset Allocation for the College Council's approval
3. To monitor the performance and risk profile of the portfolio and its constituent parts

4. To review the recommendations of the Investment Property Sub-Committee and where relevant make recommendations for the College Council's approval
5. To review specific private equity and private credit investments within the agreed asset class limitations
6. To monitor the performance of Investment Managers
7. Approve investment management costs
8. Recommend retention or dismissal of Investment Managers for College Council approval
9. Review the Spending Rule to ensure that it is sustainable and prudent over the long term and recommend the withdrawal percentage for College Council approval.

The Investments Committee will operate so far as possible on a consensus basis. At times, support for a proposal may not be unanimous, and the Chairman will summarise the consensus view. If necessary, decisions will be taken by majority vote of Fellows on the Committee, with dissensions noted in the minutes if this is requested.

### *6.4 Investment Property Sub-Committee*

The Investment Property Sub-Committee provides specialist support and advice to the Investments Committee in considering direct property investments, developments and divestments, and (where necessary) its indirect investments within the property sector. The Investment Property Sub-Committee reports to each meeting of the Investments Committee.

### *6.5 Day-to-day management and decision-making*

The Senior Bursar manages the College's finances, investments and property under the control and direction of the College Council. The Senior Bursar's investment responsibilities are:

1. Oversee the day-to-day management of the Endowment
2. Promote the Investments Committee's discussion of investment opportunities and risks
3. Oversee the implementation of investment decisions.

To assist rapid decision-making between meetings of the Investments Committee the following approaches will be pursued:

1. The Investments Committee will delegate investment decisions in exceptional circumstances to the Senior Bursar in consultation with the Master, who may act after receiving appropriate advice, subject to a cap, on each occasion of delegation, on disposals of investments of up to £2 million in aggregate and acquisitions of investments of up to £2 million in aggregate; and
2. For investment decisions in excess of the cap, after receiving appropriate advice, the Senior Bursar will circulate proposals by email to the Investments Committee with a clear deadline for response. Subject to a majority of the Investments Committee members having responded within the deadline, the Senior Bursar will then proceed in accordance with the majority view of the responses.
3. The Senior Bursar will report the advice given and action taken by email and then in writing to the next meeting of the Investments Committee.

The Endowment Property Manager works closely with and reports to the Senior Bursar. The Endowment Property Manager's responsibilities are:

1. Day-to-day management of the property elements of the Endowment
2. Liaison with property agents and other professional property advisors
3. Preparation of reports and briefing papers in relation to the College's property investments
4. Monitoring of property management costs.

Appendix 1 – Statement of Investment Responsibility The primary fiduciary responsibility of the College Council in investing and managing the Endowment is to maximise the financial return on those resources, taking into account the amount of risk permitted within the College's investment policy. There are circumstances, however, described in Charity Commission guidance and founded in judicial decisions, when the College may balance against its primary responsibility considerations of the ethical nature of investments. Therefore as an eleemosynary institution established to exist in perpetuity and a long-term investor, the College will take due care to ensure that its investment management reflects the interests and values of the College. This includes matters of sustainability and environmental, social, and governance issues (together referred to as 'ESG issues' or 'responsible investment') among the many factors that inform its investment decision-making and manager selection.

***Financial Assets***

The College believes that by engaging in a broad set of extra-financial considerations, the long-term financial performance of the portfolio of financial assets can be improved. The College judges the extent to which responsible investing is successfully integrated within the investment portfolio with the help of our investment managers and through scrutiny of the investment managers' actions and success in managing those issues in the investments they make on the College's behalf. How our investment managers consider ESG issues in their investment decisions, analysis, and monitoring on the college's behalf varies by asset-class and investment strategy.

Where our investment managers invest on our behalf through independent third-party asset managers, they seek to integrate and manage ESG issues through an operational due diligence framework to assess such third-party asset managers. This framework includes an ESG due diligence section to ensure that ESG-related questions are assessed and considered during the due diligence process. After making an investment they continue to monitor identified ESG risks and maintain a dialogue with the third-party assets managers to ensure effective oversight and application of responsible investment best practices. The College scrutinises its investment managers in relation to the effectiveness of their application of those processes and ESG engagement with the relevant third-party asset managers.

Where our investment managers invest on our behalf in their own managed funds, we consider carefully the ethical and responsible investment policy of those funds in the process of selecting those fund managers. The college scrutinises those managers in relation to the effectiveness of their application of ESG criteria in the selection of assets for acquisition or disposal and engagements with investee companies. In this context the following document https://www.ccla.co.uk/documents/coif-charities-ethical-investment-fund-scheme-particulars-2022/download?inlineat page 9 is relevant and reproduced at the end of this document.

As a general matter, the College insists that its investment managers demonstrate a very high standard of integrity towards their clients, their staff and the relevant regulatory authorities.

Where any breaches of integrity are detected, the assets under management may be moved to another fund manager.

***Directly-held Property Assets***

The College holds substantial property assets which it manages directly. These include residential, commercial, retail and agricultural properties. The policy for ensuring sustainable management of these assets, including particularly the rural estates, is under development. The College is actively involved with other similar property owners to determine how matters of environmental sustainability can be managed for the good of the estate in perpetuity.

Approved by Investments Committee: 7 February 2023

Approved by College Council: 15 February 2023

**COIF Charities Ethical Investment Fund**

**Extract from Scheme Particulars: Ethical & Responsible Investment**

The Fund employs Ethical Policies as determined by the Board, and informed by consultation with Unitholders from time to time and which are reviewed by the Board at least annually. The Board does not believe that the Policies will have a lasting or substantial adverse impact on the performance of the Fund.

The Fund is promoted as an ethical fund and the ethical investment policy that it implements is set every three years following extensive Unitholder consultation. The current policy period is 2022-2025. During this period the Fund will avoid investment in companies that the Investment Manager has been advised by their third-party data providers, through the data points selected by the Investment Manager as:

- producing landmines, cluster bombs, chemical/biological weapons, and/or nuclear weapons;
- having significant involvement (>10% of turnover) in alcohol, gambling, pornography, tobacco, high interest rate lending (defined as any company, whose main business activity or focus (defined as exceeding 10% of Group turnover) is the provision of home-collected credit ('doorstep lending'), unsecured short-term loans ('payday loans') or pawnbroker loans, directly or through owned-subsidiaries), non-military weapons, or strategic military sales;
- testing cosmetics on animals (applies to companies in the ‘Personal Products’ Global Industry Classification Standard Sub-Industry. Due to regulatory requirements in some countries, exceptions will be made for companies that are identified as promoting alternatives to animal testing and which adopt a rigorous, responsible, animal testing policy);
- having fallen behind the transition to a low carbon economy. This is currently defined as any company that derives more than 5% of their revenue from the extraction of energy coal or tar sands;
- companies, whose principal business is the generation of electricity, that have not demonstrated the ability to align their business with the Paris Climate Change Agreement (as determined by the Investment Manager);
- extractives or utilities sector companies where productive engagement is not believed to be possible (at the discretion of the Investment Manager);
- deriving more than 10% of their revenue from the extraction of oil and gas (this is defined as revenue derived from oil and gas extraction & production and oil and gas refining);
- that do not meet the Manager’s minimum standards for breast milk substitutes (BMS), based on Access to Nutrition BMS index or screening for single-use abortifacients.

(These restrictions are implemented to reflect the Unitholders' wishes to co-operate with each other to meet the specific requirements of some Unitholder groups);

- that have an MSCI ESG Rating of B or below (or a data provider and score that the Manager may deem to be equivalent) and have failed a subsequent Manager's 'comply or explain' assessment.

The Fund will not purchase sovereign debt from countries agreed by the Investment Manager and the Advisory Committee as being amongst the world's most oppressive.

In addition, remaining companies who after persistent engagement, fail the Investment Manager's 'controversy process' on issues including:

- ILO Core Labour Standards;
- UN Guiding Principles on Business and Human Rights;
- Biodiversity and Toxic Waste;
- Climate Change Disclosure

are excluded from investment.

The Fund has set an aspirational target to dedicate 5% of capital to investments that provide positive social or environmental objectives and meet standard risk/return criteria.

The Fund is also managed in accordance with the Investment Manager's responsible investment policy and takes a positive approach to stewardship as defined in the UK Stewardship Code for institutional investors.

The Investment Manager's response to this code and its voting and engagement records are available on its website (www.ccla.co.uk). The Manager is also a signatory to the United Nations backed Principles for Responsible investment.

The annual PRI assessment is available on the Investment Manager's website. The Fund will take an active policy with regard to corporate actions and voting as required.