



Investment Policy

Finance Services

November 2023

Investment Policy

UNIVERSITY OF EXETER
INVESTMENT POLICY

Approved by Council on December 2023, following review by the Investment & Endowment Group in November 2023

1. Scope

1. The University invests funds in several ways:

Type of Investment	Explanation	Governance
General Funds	Surplus cash arising from the normal operations of the University, usually short-term in nature, managed to ensure working capital requirements are met, seeking a return while preserving capital.	Treasury Management Policy
Endowments	Funds managed <i>in trust</i> in accordance with any specified restrictions in use and/or in the preservation of capital or otherwise, determined by donors. Endowments are either: - Permanent (where the capital must be preserved) or - Expendable (where the capital must be applied)	Investment Policy <i>(ie this document)</i>
Subsidiary Undertakings	Investments in subsidiary companies undertaking non-primary purpose activity, in order to protect the University's charitable status and for the efficient arrangement of the University's tax affairs.	Case by case basis, driven by a business plan with Council approval.

1.2 This policy does not cover investments made by the Exeter Retirement Benefit Scheme which is a legally separate trust created to manage the pension assets and benefits of certain University staff.

1.3 When the University receives gifts and donations it will classify them in combination of:

- University general income: *an unrestricted donation or a restricted donation that is likely to be fully spent within 5 years*
- University research income: *a donation whose terms restrict the gift for a specific proposal that satisfies the Frascati definition of research*
- Permanent Endowment: *a restricted or unrestricted donation where the University is required to preserve the original capital gift in perpetuity*

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- Expendable Endowment: *a restricted endowment that is unlikely to be spent in less than 5 years*

1.4 This Investment Policy applies to funds classed as permanent or expendable endowments.

2. Introduction

2.1 The University of Exeter is an exempt charity, established by Royal Charter, whose purpose is the advancement of knowledge. The Royal Charter sets out an objective of the University:

To act as Trustees or Managers of any property, endowment, legacy, bequest or gift for purposes of education or research or otherwise in furtherance of the work and welfare of the University which can lawfully be transferred to the University and to invest any funds representing such property, endowment, legacy, bequest or gift if not immediately required in such stocks and securities including the purchase of land as the University may think fit.

2.2 University trustees act as stewards of endowment funds, undertaking to past, present and future donors to preserve and use funds in accordance with their wishes.

3. Responsible Investment and Engagement

3.1 Council adopt a responsible approach to investment and take ethical considerations into account in investment decisions whilst ensuring there is no significant detrimental impact on the investment return.

3.2 Specifically the University will only invest in entities that exhibit best class standards of behaviour and performance in a broad range of environmental, social and governance (ESG) issues using both positive and negative screening methodologies developed and deployed by its fund managers. This approach signals the University's ethical values whilst encouraging entities to adopt high and improving standards of ESG behaviour which the University believe will generate superior long-term financial returns. .

3.3 Environmental, social and governance (ESG) is a term that embraces a basket of issues illustrated in the table below:

Environmental	Social	Governance
<ul style="list-style-type: none">• Climate change• Carbon emissions• Pollution• Deforestation• Sustainability	<ul style="list-style-type: none">• Human Rights• Slavery• Child labour• Health and safety• Employee relations• Animal welfare• Arms and Ammunition	<ul style="list-style-type: none">• Bribery and corruption• Executive pay• Board diversity• Transparency

3.4 The University, or its appointed fund managers, will not invest in assets, stock or sectors which conflict with the University's objectives set out in its Royal Charter.

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- 3.5 The University will not invest in sectors or entities that Council may proscribe from time to time. Council have determined that it will exclude investments in entities that produce tobacco and entities that are involved in the extraction of fossil fuel.¹
- 3.6 Absolute exclusions are kept to a minimum as it is Council's preference to adopt a progressive policy based on investing in entities that exhibit high standards of performance on a range of ESG issues, combined with a policy of engagement (via its appointed fund manager) to drive improvement in ESG performance.
- 3.7 The University's fund managers will proactively engage with entities through direct engagement with companies on particular issues, for example via dialogue with company boards, proactively tabling resolutions and voting at AGMs. Fund managers are also expected to collaborate with other members of the responsible investment community to leverage impact on critical issues.
- 3.8 The University will publish a list of its full investments as an appendix to its Investment Policy in the interests of transparency, updating this each year.
- 3.9 Any member of the University (staff, students and alumni) may make representations to the University with respect to specific investments that they regard as being contrary to the University's values or objectives. Such representation should be made in writing (or via e mail) to the Chief Financial Officer and Executive Divisional Director of Finance, Infrastructure and Commercial Services setting out an evidential based case. The Executive Director will present such cases to the University's Investment and Endowment Group for consideration.
- 3.10 The University requires its fund managers to:
- be signatories to the United Nation's Principles for Responsible Investments and to comply with the Financial Reporting Council's UK Stewardship Code
 - Periodically report on the composition of the University's portfolio the fund managers ESG policies and engagement activities and compliance to the UN PRI principles.

4. Investment Objective

- 4.1 The investment objective of endowment funds will be to achieve an absolute rate of return deemed achievable in the market place and sufficient to fulfil the charitable objectives of the donation, taking into account the University's ESG requirements, risk and any requirements to preserve capital.
- 4.2 The absolute return target is inflation+4% (net of fees) over a rolling five-year period. Inflation is defined as the Consumer Price Index.

5. Spending Rule for Permanent Endowments

- 5.1 The University operates a total return approach to the disbursement of permanent endowments, setting a spending rule based on total return, enabling income and capital gains to be applied to charitable purpose.
- 5.2 The current total return spending rule is 4% applied to the three-year historic average capital values of permanent endowments as at 31 July of each year. This rate of withdrawal is the

¹ A revenue threshold of 5% will apply, meaning that entities, such as groups, will be excluded where their turnover exceeds 5% from proscribed activity.

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rate deemed the sustainable withdrawal rate whilst preserving the real value of capital. The spending rule creates an annual budget allocation that is allocated to the relevant activity within the University's budget.

6. Risk

- 6.1 The University relies on generating a defined level of financial return to fund charitable activity in fulfilment of the wishes of past, present and future donors. The three key risks are inflation, fluctuations in capital values and currency risks.
- 6.2 Inflation risk is addressed through setting an appropriate absolute return target and an appropriate spending rule (for permanent endowments) aimed only distributing (spending) sums that protect the real value of capital.
- 6.3 Permanent endowments, whether restricted or not, are expected to be preserved in perpetuity, allowing a long-term time investment horizon and accepting a higher degree of market volatility and therefore capital risk. The permanent nature of these endowments means short term capital volatility and is not considered a risk. However, permanent endowment balances may include an element of unapplied total return which can be spent and this element is exposed to capital risk.
- 6.4 Expendable endowments are generally intended to be spent over a shorter-term horizon (usually meaning under three years) so the investment of such funds needs to ensure they are not unduly exposed to capital risk.
- 6.5 The Chief Financial Officer and Executive Divisional Director of Infrastructure and Commercial Services will determine what proportion of unapplied total return permanent endowment funds and expendable endowment funds that can be exposed to capital risk (eg invested in equities) taking into account expenditure and liquidity requirements.
- 6.5 Currency risk will be managed by the University's Fund Manager who may elect to use currency hedging instruments if deemed appropriate.

7. Liquidity

- 7.1 The University will set its endowment funded expenditure budgets on the basis of the agreed spending rule set out in this policy. This will be funded from the total return – income and capital appreciation.
- 7.2 Permanent funds are intended to be held in perpetuity so liquidity requirements are not great. Expendable endowments are intended to be spent over a period of time (normally over 5 or more years) so require a higher level of liquidity.
- 7.3 At least 80% of the combined portfolio should be held in funds that have the capability of daily liquidity.

8. Governance, Management and Reporting

- 8.1 Council will delegate to Finance Dual Assurance the oversight and monitoring of the execution of its investment policy and the performance of its appointed fund managers. Finance Dual Assurance may make recommendations to Council to change fund managers if and when appropriate.
- 8.2 An Endowment and Investment Group assists Finance Dual Assurance in monitoring the performance of the University's fund managers. This group will meet with Fund Managers at least twice a year to review ESG and financial performance and engagement activity. The

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group may have internal and/or external experts co-opted on to it, and will include the Presidents of the two student unions (or their nominees).

- 8.3 The Chief Financial Officer and Executive Divisional Director of Finance, Infrastructure & Commercial Services will prepare an annual report to Council on endowment investments, setting out the value of investments, their performance, ESG characteristics and fund manager engagement activity, highlighting any issues Council to enable members to fulfil their fiduciary duties, legal obligations with respect to investments as well as compliance with the policy.
- 8.4 The Chief Financial Officer and Executive Divisional Director of Finance, Infrastructure & Commercial Services will publish this Investment Policy, along with an annually updated list of all investments held by the University's fund manager, to promote transparency. This is available via the following link on our website – www.exeter.ac.uk/departments/finance/aboutus/about/investmentpolicy/
- 8.5 The Chief Financial Officer and Executive Divisional Director of Finance, Infrastructure & Commercial Services will have responsibility for responding to questions and queries arising from members of staff, students or alumni.

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University of Exeter Endowments Holdings as at 31st July 2023

Please note that the following information is valid as at 31/07/2023.

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SECURITY NAME	VALUATION GROUP
TREASURY 0% T-Bill 7/08/2023	Fixed Interest - Gov Bonds - UK Conventional Gov Bonds
TREASURY 0% T-Bill 21/08/2023	Fixed Interest - Gov Bonds - UK Conventional Gov Bonds
TREASURY 0% T-Bill 29/08/2023	Fixed Interest - Gov Bonds - UK Conventional Gov Bonds
TREASURY 0.375% Bonds 22/10/2026	Fixed Interest - Gov Bonds - UK Conventional Gov Bonds
TREASURY 7/8% Green Gilt 31/07/2033	Fixed Interest - Gov Bonds - UK Conventional Gov Bonds
TREASURY 1 3/4% Gilt 7/09/2037	Fixed Interest - Gov Bonds - UK Conventional Gov Bonds
ABRDN OEIC V Gbl Index Lkd Bond S Instl Inc	Fixed Interest - Gov Bonds - Overseas Index Linked Govt Bonds
ISHARES II PLC USD TIPS 0-5 UCITS ETF (GBP)	Fixed Interest - Gov Bonds - Overseas Index Linked Govt Bonds
DEUTSCHE BAHN FINANCE 3.125% Gtd 24/07/2026	Fixed Interest - Corp Bonds - UK Inv Grade Bonds - Higher Quality
KREDITANST FUR WIE 0.875% Gtd Snr 15/09/2026	Fixed Interest - Corp Bonds - UK Inv Grade Bonds - Higher Quality
EURO INVESTMENT BANK 3.75% MTN 7/12/2027	Fixed Interest - Corp Bonds - UK Inv Grade Bonds - Higher Quality
DIAGEO FINANCE PLC 2.375% Gtd Snr 8/06/2028	Fixed Interest - Corp Bonds - UK Inv Grade Bonds - Higher Quality
A2 DOMINION HOUSING GROUP LTD 3.5% 15/11/2028	Fixed Interest - Corp Bonds - UK Inv Grade Bonds - Higher Quality
LONDON STOCK EXCHANGE GRP PLC 1.625% Snr 6/04/2030	Fixed Interest - Corp Bonds - UK Inv Grade Bonds - Higher Quality
LLOYDS BANKING GROUP PLC 6.5% Snr 17/09/2040	Fixed Interest - Corp Bonds - UK Inv Grade Bonds - Higher Quality
PGH CAPITAL LTD 6.625% Gtd Sub Nts 18/12/2025	Fixed Interest - Corp Bonds - UK Investment Grade Bonds
NATIONAL GRID ELEC DIST 5.875% Snr 25/03/2027	Fixed Interest - Corp Bonds - UK Investment Grade Bonds
RABOBANK NEDERLAND 4.625% Bonds 23/05/2029	Fixed Interest - Corp Bonds - UK Investment Grade Bonds
JUST GROUP PLC 7% Sub 15/04/2031	Fixed Interest - Corp Bonds - UK Investment Grade Bonds
AVIVA PLC 6.125% Sub Ord Bds 14/11/36	Fixed Interest - Corp Bonds - UK Investment Grade Bonds
ZURICH FINANCE (IRE) PLC 5.125% Flt Rt Gtd Sub 23/11/52	Fixed Interest - Corp Bonds - UK Investment Grade Bonds
RATHBONE UNIT TRUST MGMT Ethical Bond S Inc (GBP)	Fixed Interest - Corp Bonds - UK Investment Grade Bonds
LOMBARD ODIER FUNDS Gbl Climate Bd Syst Hgd N Inc	Fixed Interest - Corp Bonds - Overseas Investment Grade Bonds
MIROVA FUNDS Global Green Bd HSI Acc (GBP)	Fixed Interest - Corp Bonds - Overseas Investment Grade Bonds
FDM GROUP HOLDINGS PLC 1p Ordinary Shares	Equity - UK - Software & Computer Services
VODAFONE GROUP PLC USD0.2095238 Ordinary Shares	Equity - UK - Telecommunications Service Providers
SMITH & NEPHEW PLC USD0.20 Ordinary Shares	Equity - UK - Medical Equipment & Services
ASTRAZENECA PLC USD0.25 Ordinary Shares	Equity - UK - Pharmaceuticals & Biotechnology
DECHRA PHARMACEUTICALS PLC 1p Ordinary Shares	Equity - UK - Pharmaceuticals & Biotechnology
GSK PLC 31 1/4p Ordinary Shares	Equity - UK - Pharmaceuticals & Biotechnology
HALEON PLC 1p Ordinary Shares	Equity - UK - Pharmaceuticals & Biotechnology
LLOYDS BANKING GROUP PLC 10p Ordinary Shares	Equity - UK - Banks

The value of investments and the income arising from them may fall as well as rise and you might get back less than you originally invested.