Exeter College
Investment Policy Statement

Introduction

The Investment Policy is a statement of objectives and principles agreed by the Governing Body. The purpose of the Investment Policy is:

- To confirm the purpose of the Exeter College endowment.
- To define the objectives, target returns, risk tolerance, constraints and operational parameters that apply to the investment of the College's endowment assets.
- To describe the parameters within which investment decisions may be taken by the Investment Committee and College officers with responsibility for investment management (as set out in the section below on governance).
- To define the fiduciary responsibilities of College officers and external members serving on the Investment Committee
- To establish the governance arrangements that apply to the management of the endowment including potential conflicts of interest, the selection, appointment and review of third-party investment advisers, managers and administrators, and the evaluation of fees and incentives payable for investment services.

The Investment Policy relates to the College's endowment investments. The endowment in this context refers to assets which are not functional assets of the College (such as property used for teaching, research and student accommodation). These endowment assets are a mix of agricultural and residential property and financial assets such as equity funds, commercial property funds and private equity funds. The primary purpose of the endowment is to provide an annual transfer from the total return of the assets to support the College's ongoing operations. From time to time the Governing Body may use some of the unrestricted endowment to fund capital projects. Endowment is replenished through new philanthropic gifts and through growth in the investments over time.

Overall Objective

The College relies on the annual transfer from the endowment to sustain its core activities and any unplanned drop in the annual transfer would have severe consequences for the College, particularly if it were persistent. Thus, a precipitous and prolonged fall in investment value could compel the College to retrench and any decision to spend endowment funds on a capital project should include a plan to replenish these funds with new philanthropic gifts. Philanthropic fundraising is not the responsibility of the Investment Committee.

The College operates a total return investment strategy, meaning that it seeks to generate an annual return from a combination of income generated by investments (interest, dividends and rent) and capital appreciation (an increase in the market value of investments). The money that is transferred to the College in each year to fund regular activity is calculated using a spend rule, which is which is described in detail below.

Return Objective

The primary investment objective is to replenish the value of endowment consumed each year calculated using the spend rule (see below) and to compensate for the erosion in spending power attributable to inflation – the real rate of return. This can be expressed as a target of inflation plus a margin above the annual transfer rate, which is currently 3.25%. Based on the expected volatility of the overall Endowment portfolio, the margin required is assessed to be between 0.75% and 1.0%, so the target return would be inflation plus 4.0% - 4.25%. The College uses the UK Retail Prices Index (RPI) as its measure of inflation; if RPI is no longer supported, the Governing Body will consider the appropriate alternative measure to use. Periodically, the Investment Committee will review the sustainable rate of consumption from the Endowment, based on an evaluation of long term expected real returns from the asset classes in which it invests. Based on this analysis, the Investment Committee will advise the Governing Body on the appropriate spend rate.

The Investment Committee will implement shorter-term investment strategies, agreed in conjunction with its advisers, which are appropriate to the prevailing economic and market conditions. The variable nature of returns from year to year is such that the real return objective should be assessed over rolling periods of at least five years.

Risk and Investment Horizon

The College expects to continue in perpetuity and can, therefore, take a very long perspective on its investment strategy. In practice, this means that it can be patient for value to be realised from certain investments but it also requires strong, recurring growth from most of its investments in each year to achieve the real return objective.

The College accepts that it will take investment risks to achieve the returns it seeks and that volatility is an unavoidable consequence. The College will seek to mitigate the most extreme impact of volatility through diversification of asset classes and will permit the mix of asset types to be varied within wide ranges to reduce exposure to risk or to capture expected higher rates of return as market conditions change. High levels of cash or near-cash investments are an accepted alternative to sovereign debt in periods of uncertainty or extreme market stress.

The endowment should not be exposed to a concentration of sector, style, credit, duration or manager risk. In general, where actively managed funds are purchased, exposure to any single manager or team, including a management group, will not exceed 5% of the total portfolio by book cost and should not exceed 10% of market value. Reasonable time will be allowed to correct any breach of the 10% upper limit, to preclude distressed selling in volatile markets. These restrictions will not apply to index tracking and exchange traded funds which invest direct into the underlying assets without the use of replication or over-lay strategies where manager risk does not arise. The restrictions do apply to funds which use derivatives and collateral hypothecation where there is a risk of significant loss.

The Committee will monitor the risk-return characteristics of the Endowment portfolio using recognised methodologies such as efficient frontier and VaR measures and will make reasonable adjustments for the effect of the illiquid portion of the portfolio, in particular directly-held property and private equity.

Strategic Benchmark

The College has an estate of agricultural land which was acquired in earlier generations and now provides a valuable alternative source of value and a counterbalance to the volatile market assets acquired more recently. A modest portfolio of Oxford residential property was bought into the Endowment to release cash towards the funding of Cohen Quadrangle. These houses are part of the investment portfolio which the Investment Committee can consider switching into other investments.

The agricultural holdings provide regular returns through rents and are a store of capital value. Periodically, certain holdings can produce exceptional capital returns through development or the release of suppressed value through a change in the tenancy arrangement.

The Strategic Benchmark is a composite comprising recognised indices to represent asset classes, (global equities, fixed interest, property, etc), which represents the mix of legacy investments (the agricultural and residential property) and those other assets which the Endowment may acquire to achieve its returns and manage its various risks, (financial, or tradable, assets invested in global equities, commercial property, fixed interest, etc.). The Strategic Benchmark has a target allocation for each asset class and a wide permissible range within which the Investment Committee has discretion to vary the actual allocation.

The ranges are binding on the Committee but if an exceptional market movement causes one to be breached the Committee may use its judgment whether to correct the breach immediately or to manage it within the market conditions that have caused it. In any case, the Committee will report such a breach to the next Governing Body meeting with an account of how it is responding to it. The risk and return characteristics of this benchmark can be estimated using historic records for each investment type.

The current Strategic Benchmark for the Endowment is:

Fixed Interest * (10% within range 0% - 20%, but exceptionally up to 50%)

Reference Benchmark: 100% FTSE All Gilts Index

Public Equity, including active long-short managers (50% within range 35% - 75%)

Reference Benchmark: MSCI All Country World Index (ACWI)

Unconstrained multi-asset managers (0% within range 0% - 8%)

Reference Benchmark: HFRI Fund Weighted Composite Index

Private Equity (8% within range 0% - 15%)

Reference Benchmark: MSCI World Small Cap Index (USD)

Commercial Property (5% within range 4% - 12%)

Reference Benchmark: IPD UK Property TR

Residential Property (5% within range 0% - 10%)

Reference Benchmark: IPD UK Property TR

Agricultural Property (20% within range 15% - 25%)

Reference Benchmark: IPD UK Property TR

Cash[1] (2% within range 0% - 10%, but exceptionally up to 50%)

Reference Benchmark: Sterling 3 month LIBOR

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[1] Where market conditions mitigate against Fixed Interest, cash is a permissible alternative within the 10% target benchmark objective.

Ethical Investment

As an educational charity the College is fully aware of its wider responsibilities to the community in which it operates, and will seek to invest its endowment in accordance with the ethical standards of its charitable purpose.
In particular given the permanent nature of the core part of the endowment, the College will seek to invest in a manner consistent with its strategic objective of measuring and mitigating the adverse environmental impact of the College.
In this regard:

- The College will seek transparency in the nature of its investments and their activities
- Consistent with the asset allocations set out herein, the College expects its financial endowment to be principally invested in regulated funds managed by investment firms of high repute and domiciled in recognised UK/EU/US jurisdictions or equivalent. The College has no current direct holdings of individual stocks and is unlikely to invest directly in individual stocks in the future.
- Wherever feasible, the College will monitor and screen its financial investments using best practice techniques to measure the environmental, social and governance (“ESG”) impact of their underlying investments. It will incorporate this analysis in its investment decisions with the aim of improving the overall ESG characteristics of its portfolio over time.
- A portion of the investment portfolio will be allocated to explicit ESG and SRI (socially responsible investment) funds and, subject to performance, the College’s intention is to increase this allocation over time.

Annual Transfer Rule

Currently, the headline transfer rate is 3.25% annually of the year-end endowment value. This is embedded in a smoothing mechanism whereby the transfer in any current financial year is based on a combination of the prior years’ transfer value adjusted for inflation and the product of the transfer rate (3.25%) applied to the closing market value of the endowment at the end of the financial year (the ‘Market Value Element’). These two components are weighted, with the current year’s transfer being comprised as follows:

- 70% to the inflation-adjusted prior year’s transfer value and
- 30% to the Market Value Element.

This apportionment is intended to reduce the impact of fluctuations in the market value of the Endowment from one year to the next.

The rule may be expressed as:

Transfer value t = 70% of [Transfer value $_{t-1}$ x (1 + Z%)] + 30% of [3.25% x year-end endowment valuation t],

where ‘t’ = the current financial year and Z is the rate of inflation.

The fiscal year for Exeter College begins on 1 August; therefore closing market value t-1 = value on 31 July. Inflation is measured by the UK Retail Prices Index (RPI) or an alternative index approved by Governing Body.

Allowable Investments

The Endowment will operate within the Charity Commission guidelines on investment incorporated as an appendix to this Investment Policy. This includes the purchase and sale of listed Traded Option contracts but precludes the writing of options; it also includes the use of forward contracts, particularly for currency hedging. The Endowment may invest in funds which themselves use leverage, but the Investment Committee will not leverage the portfolio (i.e. borrow to invest).

Currency Exposure

The College's base currency is UK sterling. By the nature of global investment, the portfolio is exposed to a number of other currencies, the principal ones being the US dollar and the Euro. The Committee will have the discretion to hedge currency risk using forward contracts and other derivative instruments where appropriate and permissible. In making new investments the Committee will have the discretion to invest in funds that are themselves permanently hedged (in part or in full) relative to sterling where that option exists.

Taxation

The College, being a UK charity, is exempt from UK Income Tax, UK Capital Gains Tax, UK Stamp Duty Reserve Tax and Stamp Duty Land Tax. Wherever possible, investment funds will be chosen that benefit from these tax exemptions but where there is evidence that the potential for superior returns outweighs the benefit of tax relief, the tax status of a fund should not be considered the overriding priority. Development of farmland or other property assets can be deemed to be "trading activity" by HMRC and the profits liable to Corporation Tax. The Investment Committee must seek professional advice on each proposed development and advise the Governing Body on measures to mitigate a liability to Corporation Tax.

Liquidity

Normally, the requirement for immediate liquidity will be limited to funding investment management expenses, calls on commitments to limited partnerships, and paying the annual income calculated under the spend rule. At times when the Governing Body plans to spend significant endowment funds on capital projects, the Investment Committee may elect to raise the liquidity well in advance of the funds being required, notwithstanding the possible effect on performance.

The Investment Committee will monitor the marketability of assets in the portfolio using a liquidity ladder.

Responsibilities

Fiduciary responsibility for the management of endowment assets within the framework of the Investment Policy in force at any time and within the scope of UK law and Charity Commission guidelines resides with the Governing Body of the College. Investment reports tabled regularly at Governing Body meetings must enable the Governing Body to exercise oversight. To enable investment decisions to be made and implemented in a timely manner, the Governing Body will delegate the operational management of the endowment to an Investment Committee as follows:

- The Governing Body will appoint an Investment Committee consisting of the Rector (Chair), the Bursar, the Accountant, three fellows (by rotation) and four external members. All members of the Committee will have one vote each. The Finance & Estates Bursar is the convener of the Investment Committee.

- The Investment Committee, in consultation with the investment adviser(s), will be responsible for recommending an Investment Policy to the Governing Body that meets the changing needs and circumstances of the College, including taking account of best practice in investment management and developments in capital markets. The Investment Policy will be put to the Governing Body annually, in Trinity Term, for revalidation or for consideration of recommended changes.
- The Investment Committee will be responsible for advising the Governing Body on the appointment of an investment adviser(s) to support the management of the endowment with regular investment advice, due diligence in the selection of individual investments and managers, portfolio analysis and performance reporting. The Investment Committee should review the investment adviser(s) not less than every five years and make recommendations to Governing Body to re-appoint or to replace.
- The Investment Committee will be responsible for the implementation of the Investment Policy, including the selection and review of all investments and managers, the assessment of market conditions and decisions to add or remove holdings from the portfolio.
- Decisions will be taken at scheduled meetings of the Investment Committee but if decisions need to be taken between scheduled meetings, it will be acceptable do so by e-mail circulation and/or teleconference discussions, which will be documented and added to the minutes.
- The Investment Committee will be responsible for monitoring performance and for reporting to Governing Body.
- Members of the Investment Committee who are not members of the Governing Body of Exeter College will have a general duty of care but will not have any of the fiduciary obligations of a trustee.

External Members

The Governing Body will appoint up to four external members to the Investment Committee to serve at any time. These will be persons who are not members of the Governing Body and are not officers of the College. External members will have relevant professional experience and expertise that can enhance and support the work of the Investment Committee. External members are expected to participate fully in the deliberations of the Committee and to bring their own perspective; they are not to be observers. Each external member will serve for an initial term of four years, renewable at the discretion of the Governing Body for further terms. Additional external experts may be seconded for a limited time by the Committee itself to provide advice on specific issues; seconded experts will not have a vote. External members will not be remunerated and will not receive expenses; their contribution to the Committee will be *pro bono*.

Reporting

The Investment Committee will be responsible for ensuring that comprehensive records are maintained of all its decisions.

The Investment Committee will be responsible for recommending to Governing Body the appointment of an agent to value the endowment and measure performance, and for recommending a range of measures and benchmarks, both absolute and relative, that are appropriate to the categories of investment in the endowment at any time.

Fees and Expenses

The Investment Committee will be responsible for evaluating the fees and other costs charged by managers or advisers or embedded in funds, and for ensuring that they are justifiable in the context of the after-cost returns achieved and of charity investment.

Custody

The Investment Committee will be responsible for ensuring that appropriate, secure custody arrangements are in place such that the implementation of the investment strategy can be achieved in a cost-efficient and timely manner and that the reconciliation of balances and movements is undertaken regularly and to the satisfaction of the College Auditors. The Committee may recommend the use of third party custodians for the approval of the Governing Body.

Conflicts of interest

Any member of the Investment Committee connected to any organisation or person associated with the management of the endowment must declare it. Any member of the Committee who is connected with or has an interest in a security, company, fund, investment manager or scheme promoter under consideration may participate in the discussion but may be asked to withdraw from the meeting while other Committee members decide on the action to take. All such potential conflicts of interest and the manner in which they are managed by the Committee will be recorded in the minutes and brought to the attention of the Governing Body.

By College Order 20/026, this policy was approved by Governing Body on 11th March 2020, with immediate effect.

Extract from Charity Commission Guidance CC14
5. Deciding what to invest in

This section sets out some of the basic types of financial investment that are available to charities. Once the trustees have established their charity's investment policy, they (or their investment managers), can decide on the type and range of assets that will achieve their investment objectives.

5.1 What can a charity invest in?

The short answer (legal requirement)

Trustees can make financial investments in any asset that is specifically intended to maintain and increase its value and/or produce a financial return.

Trustees must also be clear about the difference between investment and trading (see 5.2 and Legal underpinning: charities and investment matters (part 1)

In more detail

Trustees can invest in any type of investment while following the principles set out in this guidance. Possible types of investment include:

- interest bearing cash deposits in bank or building society accounts (see section 9)
- shares in a listed company (listed equities)
- interest bearing loans to a company or the government (bonds or gilts)
- buildings or land
- common investment funds and other collective investment schemes (see 5.3)
- non traded equity in private companies
- hedge funds
- commodities
- derivatives

In all cases trustees must consider:

- how suitable any investment is for their charity - this will be influenced by the charity's attitude to risk across its investment portfolio
- the need to have a mix of assets in their portfolios - this can protect the charity's investments from sudden variations in the market and reduce the risk of the loss

Some types of asset, for example derivatives and commodities, are likely to be suitable only as part of a well-diversified investment portfolio because of the higher risk they can represent. Trustees should take professional advice where appropriate in selecting and reviewing these types of investment.

5.2 What is the difference between trading and investment?

If trustees purchase an asset with the intention of selling it for a profit after a short amount of time, it is likely to be considered as trading. Being clear about the difference is important because:

- a charity itself can only undertake trading activity when this is directly furthering or supporting its aims
- profits made from trading are not always subject to tax relief

This distinction is particularly important when looking at derivatives, property, commodities and other opportunities which can be regarded either as an investment or as trading, depending on the context in which they are made. Trustees should be able to demonstrate their intention through their decision making.