Statement of Investment Policy

July 2023

1. Introduction

The university Council of Royal Holloway, University of London (the "university") have drawn up this Statement of Investment Policy ("the SIP") to affirm the investment principles that govern decisions about the investment of the university's endowments.

The university Council recognises the importance of ensuring that the university's investment strategy accords with the values stated in its Sustainability Strategy, and the aim to generate positive and inclusive change that supports significant progress towards the UN Sustainable Development Goals.

The university is fully committed to fulfil its responsibilities with regard to the Environmental, Social and Governance aspects of its endowment portfolio.

2. Governance

The university has established a number of Committees of the Council of the university including an Investment Sub Committee (ISC) whose role is to oversee, direct and control the university's endowments and fixed asset investments. The ISC oversees the appointment (subject to approval by Council), removal and performance of the Investments Consultant, the external fund managers and the custodian.

This division is based upon the Council's view that it allows for efficient operation of the university overall, with access to an appropriate level of expert advice and service.

The university will appoint an Investment Consultant to assist the ISC in asset allocation and other investment decisions, in the ongoing monitoring of the university's investment managers and with the advice required in order to update the SIP as and when necessary. The details of the Investment Consultant's appointment, including the scope of its remit and its fees are set out in a contract entered into between the university and the Investment Consultant.

The ISC has chosen to delegate day-to-day management of the university's investments to one or more Investment Managers. The terms of each Investment Manager's appointment are contained in the Investment Management Agreement ("IMA") agreed between the Investment Manager and the ISC/the university. The Investment Managers' responsibilities are also governed by applicable law. The Investment Managers' roles in practice include the responsibility to:

- Manage the portfolios of assets within the investment guidelines, objectives and restrictions set out in the respective IMAs but, subject to that, exercising discretion as appropriate when investing the portfolios.

- Have regard to the need for diversification of investments so far as appropriate and to the suitability of investments within Charity Commission guidelines and this Statement of Investment Policy.

- Provide the ISC with a statement of the assets and cash flows and a report on the results of past actions and any changes to the investment process at each meeting of the ISC and, where possible, on corporate actions and their future policies in that regard.

- Inform the ISC of any changes in the internal performance objective guidelines of any pooled fund used by the university as soon as practicable.

The safe custody of the university's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

3. **Process for Choosing Investments**

The process for choosing investments is as follows:

- Identify appropriate investment objectives

- Agree the level of risk consistent with meeting the objectives set by the Finance Committee of university Council

- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk

In considering the appropriate investments for the university, the ISC has obtained and considered the written advice of their Investments Consultant, whom the Trustees believe to be suitably qualified to provide such advice.

4. **Investment Objectives**

The ISC wishes to pursue on behalf of the university an investment policy which provides capital growth with a medium level of risk over the longer term, thereby enabling the ISC to meet their objectives in respect of the requirements of the university.

Within this framework the ISC have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the university is exposed. The primary objective is as follows:

- *To achieve a total return, including dividends, interest, rent or other income, and capital appreciation, of CPI Inflation + 3.2% per annum net of fees, over 3-5 years.*

- *There is no specific income target for the investment portfolio.*

5. **Exclusions**

The university is fully committed to fulfil its responsibilities with regard to the Environmental, Social and Governance aspects of its investment portfolio, and will make environmentally and socially responsible investments.

Investments in the following are specifically excluded across all asset classes:

a. Companies involved in the manufacturing of weapons or armaments
b. Companies materially involved in the supply of weapons, armaments and other strategic equipment to governments or other groups with a clear record of violating human rights
c. Companies involved in the manufacturing or supply of controversial weapons such as landmines, cluster weapons, chemical, biological and nuclear weapons
d. Companies whose primary business is manufacture and/or sale of tobacco or vaping products or who derive more than 5% of their revenues from these activities
e. Adult entertainment companies (including the production of adult entertainment)
f. Gambling companies
g. Any companies with serious breaches of internationally-recognised human rights
h. Companies involved in the exploration, production, refining, storage and/or transportation of oil, gas and/or coal are 100% excluded.

The majority of funds are expected to be invested directly. However, where funds are invested in collectives (pooled funds), the underlying holdings of the collective will be analysed, and the collective will be excluded if more than 10% of revenues of any underlying holding come from (a) to (g) above or if there are any underlying holdings covered by (h).

6. Risk Management and Measurement

There are various risks to which any investment policy is exposed. The ISC's policy on risk management is as follows:

The ISC recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns as well as producing more short-term volatility in the endowment's funding position. In addition to targeting an appropriate overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk.

- **Concentration risk** – The ISC recognises the risks that may arise from the lack of diversification of investments. The ISC therefore aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Some investment exposure is obtained via pooled vehicles. The Committee is also aware of concentration risk which arises for example when a high proportion of the university's assets are invested in securities, whether debt or equity, of the same or related issuers. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

- **Inflation and interest rate risk** – The risk that investments do not keep pace with inflation or are impacted negatively by changes in interest rates.

- **Liquidity risk** – The ISC recognise that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the ISC's long-term investment horizon, the Committee believes that a degree of liquidity risk is acceptable because the Committee expects to be rewarded for assuming it. Thus, a proportion of the university's assets are invested in illiquid investments. The remainder are realisable at short notice.

- **Equity risk** – The uncertainty of the return from equities is captured in the form of *equity risk*. The equity risk may be broken down into the credit risk of the underlying company, and the *volatility risk* associated with the stability of the price of the equity as well as *currency risk* for equities denominated in currencies other than Sterling among other risks, which include the *income risk* of a dividend not being paid.

- **Manager risk** - For most asset classes, the ISC has chosen to employ active management, and has selected investment managers whom it believes have the skill and ability to add value net of fees. Active management within an asset category is defined as holding a combination of securities that differs from the asset class benchmark. The ISC believes active management skills exist and can be identified but not with complete certainty. Choosing active managers involves manager selection risk, which arises from selecting an active manager that underperforms its benchmark net of management and transaction fees.

- **Property risk**– The return generated by an investment in property can be broken down into income and capital. The income component is subject to interest rate risk and inflation risk. There is also uncertainty as to the long-term level of the income. The capital value of the property is determined by the buyer and seller of the property and is not certain. The risks and uncertainty, including currency risk in the case of properties outside the UK, are captured within *property risk*. Property is a relatively heterogeneous asset category, with sub-categories potentially exhibiting very different behavioural characteristics and attaching risk exposures.

- **Regulatory risk** - Across all of the Fund's investments, the ISC is aware of the potential for regulatory and political risks. *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by *political risk* in those environments subject to unstable regimes.

- **Exchange rate risk –** This risk arises from unhedged investment in non-Sterling denominated assets.

- **Counterparty risk -** Some of the investment managers may employ derivatives for the purposes of efficient portfolio management, subject to agreed restrictions. Some derivatives are traded on recognised exchanges, whereas others are traded directly with other counterparties, which gives rise to counterparty risk, namely the risk that the counterparty is unable to honour their commitment at the maturity of the contract.

- **Climate risk –** The Committee believes that the returns of both asset classes and industry sectors may be significantly affected by climate change. The Committee will seek to understand how their investments will be affected by different future climate change scenarios (for example, mitigation action vs. inaction).

- **Greenwashing risk –** The Committee believes that the investment portfolio could be subject to greenwashing risk, defined as misleading or unsubstantiated claims about environmental performance, through the overstatement of the positive elements of sustainable investments or downplaying the negative aspects. The Committee will seek to manage this risk through due diligence of fund managers and advisers, regular analysis and scrutiny os sustainability-related data provided, and the requirement for clear communication and language in the reporting of these issues.

- **Credit risk –** investing in bonds issued by non-government organisations gives rise to credit risk, namely the risk that the issuer defaults or suffers a downgrade in their perceived creditworthiness, hence reducing the value of the bond.

The ISC acknowledges that it is not possible to monitor all the risks listed above at all times. However, the Committee seeks to take on those risks it expects to be rewarded for over time, in the form of excess returns (relative to benchmark), in a diversified manner. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objectives, risk tolerance and return target detailed above.

7. Investment Strategy

Given the investment objectives the ISC has implemented the investment strategy detailed in the table below. The ISC believes that the investment risk arising from the investment strategy combined with the risks arising from active management are consistent with the overall level of risk being targeted.

Asset class	Benchmark allocation
Equities (UK and overseas)	77%
Listed alternatives	10%
Fixed income	10%
Cash	3%
Total	100%

Rebalancing

The ISC will monitor the asset allocation at each ordinary meeting and effect any rebalancing back towards the central benchmark only where a tolerance range has been breached, and after discussion as to whether rebalancing is necessary.

8. Day–to-Day Management of the Assets

The ISC has determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The ISC regularly reviews the continuing suitability of the university's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. Currently the equity portfolio is 100% invested with active managers.

However, any adjustments would be made with the aim of ensuring the overall level of risk is consistent with the ISC's objectives.

9. Responsible Investment and Corporate Governance

9.1 The ISC believe that environmental, social, and corporate governance ("ESG") factors can have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The ISC also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration, as reflected in the section 6 "Risk Management and Measurement" of this document.

The ISC consider how ESG factors, climate change and stewardship are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually.

Accordingly, the ISC has instructed their appointed investment managers, giving them full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Active Stewardship

The university expects their appointed investment managers to take an active stewardship approach, which includes:

a. A commitment to use shareholder voting power to drive positive environmental and social change
b. A clear, public and time-bound engagement escalation policy

Decarbonisation

The ISC is committed to decarbonisation of the university's endowment investments. In order to monitor and guide decarbonisation and build up an allocation to sustainability-themed investments, the ISC will set targets in the following areas:[1].

1) Reducing "exposure to carbon intensive companies", as measured by Weighted Average Carbon Intensity (WACI). This is an indicator of current climate-related risks facilitating comparison across asset classes and across industry sectors, in the endowment's equities allocation.

2) Make investments in sustainability-themed investments. For example, in climate change mitigation, low carbon technology, social housing, sustainable infrastructure, energy efficiency and other opportunities. These initial investments are expected to be made by the appointed equities manager, within its fund.

[1] Only scope 1 and scope 2 emissions are considered currently.

ISC will review targets annually and monitor ESG risks including climate change / carbon risks at each meeting.

Transparency

The university is committed to transparency in its investment activities. A public-facing annual report will be produced that includes:

- Financial results
- Portfolio details and asset allocation
- Performance against sustainability targets
- Engagement activities
- Detailed list of portfolio holdings

10. **Compliance with, and review of, this Statement**

The ISC monitors compliance with this SIP regularly.

This policy will be reviewed and approved by Council every three years, on the recommendation of ISC and Finance Committee, and in consultation with the university Executive and Students' Union.

Any change to this Statement will only be made after having obtained and considered the written advice of someone whom the ISC reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of investment.