



## Statement of Investment Policy

### 1. Introduction

The Investment Sub-Committee ("ISC") of Royal Holloway, University of London (the "College") have drawn up this Statement of Investment Policy ("the SIP") to affirm the investment principles that govern decisions about the investment of the College's endowment.

### 2. Governance

The ISC have decided on the following division of responsibilities and decision making for the College.

The College have established a number of Committees of the Council of the College including an ISC whose role is to determine, review and implement the investment policy of the College. The ISC oversees the appointment, removal and performance of Investment Consultants, the external fund managers and the custodian.

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

The College may appoint an Investment Consultant to assist the ISC in asset allocation and other investment decisions, in the ongoing monitoring of the College'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 will be set out in a contract entered into between the ISC and the Investment Consultant.

The ISC has chosen to delegate day-to-day management of the College's investments to 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 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.
- Provide the ISC with a quarterly statement of the assets and cash flows and a quarterly report on the results of past actions and any changes to the investment process 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 College as soon as practicable.

The safe custody of the College'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 ISC/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 College, the ISC has obtained and considered the written advice of an Investments Consultant, whom the ISC/Council believe to be suitably qualified to provide such advice.

### 4. **Investment Objectives**

The ISC wishes to pursue on behalf of the College 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 College.

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 College is exposed. The primary objective is as follows:

- *To achieve a total return, including dividends, interest, rent or other income, and capital appreciation, of Inflation+ 4% per annum, gross of fees, over 5 years.*
- *There is no specific income target for the investment portfolio.*

### 5. **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 College'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 College’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).
- **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.

## 6. **Investment Strategy**

Given the investment objectives, the ISC will utilise an allocation of asset classes that best addresses these objectives while also addressing the Environmental, Social and Governance factors outlined in section 8 below. This may be a combination of fixed interest, equity, diversifiers (including property) and cash.

### **Rebalancing**

The ISC will monitor the asset allocation on a quarterly basis and effect any rebalancing as required.

## 7. **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 College'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.

## 8. **Responsible Investment and Corporate Governance**

- 8.1 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 5 "Risk Management and Measurement" of this document.

The ISC consider how ESG factors, climate change and stewardship is 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.

The ISC is committed to decarbonisation of the College'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 three areas:

- 1) Reduction of future emissions by focussing on absolute potential emissions (tons of CO<sub>2</sub>e). This is a reserves based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the endowment's equities allocation were burned.
- 2) 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.
- 3) Make initial 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.

Initial targets will be set for the period 2019-2021. Following this the ISC will review targets annually and monitor ESG risks including climate change / carbon risks in the portfolio by performing a bi-annual analysis of the endowment's carbon footprint.

The ISC has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider these in future.

#### 9. **Compliance with, and review of, this Statement**

The ISC monitors compliance with this SIP regularly.

The ISC will review this Statement at least once every three years and without delay after any significant change in investment policy. 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.

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