UNIVERSITY OF Southampton

Finance Policy 22 – Treasury Management

From: Executive Director, Finance & Planning **Date: September 2021**

INTRODUCTION

Finance Committee is responsible for recommending a Treasury Management Policy to Council for approval. This process is supported by Investment Committee, which is an advisory body to Finance Committee. Council considers the arrangements for the identification, management and control of treasury management risk and reviews these at least annually to ensure their adequacy and suitability.

The Executive Director, Finance & Planning is responsible for implementing and monitoring the arrangements established by Council. The Executive Director, Finance & Planning will report to the Vice President (VP) Operations and the Treasurer as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the University's business objectives.

The Executive Director, Finance & Planning will ensure that the University always has sufficient liquid funds available to it which are necessary for the achievement of its business objectives. The Executive Director, Finance & Planning will ensure that sufficient cash balances and available facilities exist for this purpose.

Assets: the aims, beliefs and constraints of the University's treasury management activities are covered in *appendix 1*.

Borrowings & financing: all borrowing will be subject to the approval of Finance Committee and Council, who will consider the necessity of the facility, the reasonableness of the terms and the University's ability to repay. The Executive Director, Finance & Planning is responsible for short-term borrowing to meet day to day cash shortfalls within limits approved by Finance Committee and Council.

The University will ensure that its borrowing and financing agreements are negotiated with a view to obtaining competitive and favourable offer terms for renewal or refinancing if required. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above. The University will not enter into funding arrangements where the repayment profile of the loans exceeds the expected useful economic life of the asset or venture being financed.

The University will seek to ensure that, where possible, new funding arrangements will not be entered into that bind the University to meet financial covenants and security arrangements which are deemed to be more onerous than those contained within the current loan documentation. The financial position of the University is monitored on a regular basis to ensure it does not breach any of its existing financial covenants. All new loan agreements will be approved by Council with the benefit of appropriate advice from officers of the organisation, solicitors or other legal or specialist advisors as Council may require.

Interest rate management – The University will undertake all its interest rate management through the medium of its loan documents and may utilize any style of interest that is provided for in these documents including, floating, fixed, index linked, capped or collared rates of interest. The style of interest will at all times be in accordance with the interest rate strategy as agreed.

LIQUIDITY RISK MANAGEMENT

The Executive Director, Finance & Planning will ensure that the University has sufficient funds in all circumstances to meet its liabilities as and when they fall due and with a sufficient margin to meet unexpected expenditure that may arise from time to time. The Executive Director, Finance & Planning will ensure that sufficient cash balances and available facilities exist for this purpose.

The Executive Director, Finance & Planning will prepare an Annual Treasury Strategy which will contain a proposed liquidity maintenance requirement for the following financial year. Further details included in appendix 1.

LEGAL AND REGULATORY RISK MANAGEMENT

The University will ensure that its treasury management activities comply with all its statutory powers and regulatory requirements. The University was incorporated by Act of Parliament in 1952 and is an exempt charity under schedule 2(a) of the Charities Act 1993.

Details of the legislative and regulatory framework within which the University operates and copies of its constitutive documents will be provided to potential and/or existing counterparties, where these may be reasonably requested for the purposes of entering into treasury management arrangements with this organisation.

FRAUD, ERROR AND CORRUPTION

The University will ensure it has identified the circumstances which may expose it to risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. It will employ suitable systems and procedures, and will maintain effective contingency management arrangements.

MARKET RISK MANAGEMENT

The University (via University of Southampton Holdings Limited) holds shares in spin out companies, some of which are quoted on the AIM stock exchange. The policy of Southampton Asset Management is to undertake orderly share sales at an appropriate point. However, this policy is mindful of the share price and the ability to conduct an orderly sale in the market.

EXCHANGE RATE RISK MANAGEMENT

The University will not expose itself to unnecessary or speculative exchange rate risk. It is acknowledged that a proportion of University Income (for example EU research funding, University of Southampton Malaysian Campus) will be denominated in non-sterling currency.

The University will maintain accounts in Euros and US Dollars as substantial levels of both income and expenditure are made in these currencies. Sufficient levels of currency will be held in these accounts to service the expected expenditure. The University will avoid speculating on the future value of currencies against Sterling and will seek to keep administration of foreign currency transactions and holdings simple and low cost in administrative terms.

The University will not normally arrange hedging for its foreign currency transactions but under exceptional circumstances the Executive Director, Finance & Planning may approve hedging arrangements on a case by case basis.

VALUE FOR MONEY AND PERFORMANCE MEASUREMENT

The University is committed to the pursuit of value for money. Its treasury management activities will be the subject of regular examination of alternative methods of service delivery and of the scope for other potential improvements within the limitations of the resources available.

Value for money from external services, where applicable to the Treasury Management function, will be ensured by following a periodic review process. In assessing the value added by the providers of external services, account will be taken of all relevant factors, including the cost, quality, reliability and scope of the service to be provided. Where external services are deemed to add no significant additional value they will be dispensed with.

DECISION MAKING AND ANALYSIS

The University will maintain records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time.

In making key decisions regarding its treasury management activities the University will ensure that proper consideration is given to all relevant factors. Any key decisions will be made with the benefit of an appropriately detailed report compiled by the Executive Director, Finance & Planning for consideration by Investment Committee and decision by Council or Finance Committee. Finance Committee and Investment Committee meeting discussions and decisions are recorded with action points agreed.

Quarterly meetings will be held by the finance directorate and the treasury management team to discuss the current treasury position and to plan actions for the next quarter. Discussions and subsequent decisions will be recorded in the minutes to these meetings. Regular meetings will also be held with the University's external treasury management advisors.

The Executive Director, Finance & Planning will be responsible for ensuring that the outcome of such decisions is effectively communicated to any officer of the University who may be involved in implementing those decisions.

The University of Southampton Science Park is a property based wholly owned subsidiary of the University whose business plans must be approved by the University. Key decisions will include the borrowing and investment requirements of subsidiary companies. The University does not act as a lender of last resort to its subsidiary companies.

REPORTING & MANAGEMENT INFORMATION REQUIREMENTS

The University will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in the pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, Council will receive an annual report detailing the strategy and plan to be pursued in the coming year and reporting on the performance of the treasury management function during the previous twelve months. The report will include the reasons for and the effects of any changes to the strategy set at the beginning of the year.

Finance Committee will receive:

- regular financial management accounts packs.
- exception reports on a timely basis of any breach or potential breach of the organisation's financial covenants with lenders, that is likely to have a materially adverse effect upon the organisations finances and continued operations.

The Annual Treasury Strategy will include:

- cash flow forecasts for the next and following two financial years, including details of borrowing maturities during this time,
- a review of the treasury activity over the preceding twelve months,
- a report on current outstanding borrowings including a maturity ladder of existing borrowings and fixed rate periods within variable loans,
- a strategy for funding the University's borrowing requirements and lending surplus cash for the period covered by the forecast,
- details of the University's strategy for refinancing maturing borrowings (if any), for re-negotiating fixed rate periods within variable rate borrowings and for financing new borrowing requirements over the next three years,
- proposals to be submitted to Council for amendments to the TMP if required by changes in regulatory requirements or developments in best practice.

The Executive Director, Finance & Planning will, upon identification of any treasury management event likely to have a materially adverse effect on the finances of the University, report this as soon as possible to the Chief Operating Officer and the Treasurer with proposals for rectifying or ameliorating the effect of such an event.

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The University's current systems and procedures in relation to budgeting, accounting and audit arrangements are detailed in the University's financial regulations.

The University will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University will be under the control of the Executive Director, Finance & Planning and will be aggregated for cash flow and investment purposes. Cash flow projections will be prepared on a regular and timely basis and the Executive Director, Finance & Planning will ensure that these are adequate for the purposes of monitoring compliance with this policy.

The Head of Financial Planning will create a cash flow forecast, as required by the Office for Students (OfS), for the current and next three financial years.

The Treasury Manager will produce a detailed cash flow analysis/ forecast on a rolling monthly basis.

The University recognises that the preparation of accurate and reliable cash flow forecasts depends on the provision of information from a number of sources. The Executive Director, Finance & Planning will be responsible for ensuring that appropriate officers are aware of the information required from them to ensure that estimates can be made, and the deadlines for the provision of such information.

STAFF TRAINING & QUALIFICATIONS

The University recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Officers will be encouraged to maintain their knowledge and skill base by following the Continuous Professional Development opportunities offered by their professional bodies. Finance staff involved in the treasury management function will be provided with opportunities to attend seminars and short courses on relevant topics.

The University will support members of staff seeking to gain professional qualifications relevant to their roles, provided this can be done without compromising the workings of the department.

USE OF EXTERNAL SERVICE PROVIDERS

The University recognises that the responsibility for treasury management decisions remains with the University at all times. It recognises that there may be potential value in employing external providers of treasury related services, in order to acquire access to specialist skills and resources.

The University currently holds contracts for the following services:

- Primary banking and card services. Banking operations and card merchant services will be put out to tender on a periodic basis.
- Fund management services for endowment funds – to be reviewed on an annual basis and re-tendered as appropriate.
- Treasury management advisory services. These will be reviewed on an annual basis.
- Fund managers to manage fixed income investment portfolio, bond repayment vehicle and other investments as identified in the treasury strategy.

CORPORATE GOVERNANCE

The University is committed to the pursuit of proper corporate governance throughout its businesses and services and to establishing the principles and practices by which this can be undertaken with openness, transparency, honesty, integrity and accountability.

The University has adopted and implemented the key recommendations of the CIPFA code of practice. This, together with the University's Code of Conduct, Standing Orders and Financial Regulations are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Director, Finance & Planning will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

RESPONSIBILITIES

Council

- Responsible for approving this policy, procedures and delegation of authority.
- Responsible for considering the arrangements for the identification, management and control of treasury management risk annually.

- Responsible for approving and accepting all loan and funding arrangements.
- Responsible for the approval of short term overdraft facilities.
- Responsible for approving the Annual Treasury Strategy.

Finance Committee

- Responsible for recommending this policy to Council.
- Responsible for recommending all borrowing to Council.

Investment Committee

- Responsible for advising Finance Committee on acceptance of this policy.
- Responsible for making recommendations on changes to the University's investment portfolio.
- Responsible for assessing the potential reputational impact of the investment portfolio.

Vice-Chancellor

- Approval of counter party durations in excess of those set out with advice from Finance Committee.

Executive Director, Finance & Planning

- Is responsible for implementing and monitoring the treasury management arrangements established by Council.
- Will report to the VP Operations and the Treasurer the circumstances of any actual or likely difficulty in achieving the University's business objectives.
- Responsible for short-term borrowing within limits set out by Council.
- Responsible for ensuring that the University has sufficient funds to meet its liabilities as and when they fall due.
- Responsible for preparing and implementing an Annual Treasury Strategy.
- Responsible for preparing a report with recommendations for managing the exposure resulting from any proposed new borrowing.
- Responsible for approving hedging arrangements in exceptional circumstances.
- Responsible for ensuring there are statements of responsibilities for each post engaged in treasury management and arrangements for absence cover, and to ensure segregation of duties between approval and execution within the treasury function.
- Responsible for ensuring there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds.
- Responsible for ensuring the adequacy of internal audit and liaising with external auditors.
- Responsible for approving the opening of new bank accounts.
- Responsible for negotiating the terms of new bank loan facilities and/or bond issuance.

- Responsible for authorising investments within the strategy.
- Responsible for selecting approved investment counterparties.
- Responsible for all monies in the hands of the University.
- Responsible for preparing cash flow projections on a regular and timely basis.

Head of Financial Planning

- Responsible for creating a cash flow forecast for the current and next three financial years as required by the Office for Students.

Treasury Manager

- Responsible for executing transactions.
- Responsible for maintaining treasury management records.
- Responsible for management information reports.
- Responsible for maintaining relationships with counterparties and external treasury advisors.
- Responsible for identifying and recommending opportunities for improved practices.

Subsidiary Companies

- Must detail any requests for changes to treasury requirements as part of their financial plan submitted through the business planning process as set out in Finance Policy 3.

Employees

- Must be aware of and comply with this policy.

SCHEDULE OF DELEGATION

The Schedule of Delegation sets out how the responsibilities of this Finance Policy can be delegated.

In exceptional circumstances, the VP Operations or the Executive Director, Finance & Planning may authorise a departure from any responsibility set out in this Finance Policy, providing that this does not constitute a departure from the underlying principles of the responsibilities set out in the Financial Regulations.

The schedule of delegation sets out which responsibilities can be delegated. At no time is the accountability delegated.

Responsibility	Responsible	Can be delegated	Delegated to
Responsible for approving this policy, procedures and delegation of authority.	Council	N	
Responsible for considering the arrangements for the identification, management and	Council	N	

control of treasury management risk annually.			
Responsible for approving and accepting all loan and funding arrangements.	Council	N	
Responsible for the approval of short term overdraft facilities.	Council	N	
Responsible for approving the Annual Treasury Strategy.	Council	N	
Responsible for recommending this policy to Council.	Finance Committee	Y	Investment Committee
Responsible for recommending all borrowing to Council.	Finance Committee	Y	Investment Committee
Approval of counter party durations in excess of those set out with advice from Finance Committee.	Vice-Chancellor	Y	Investment Committee
Responsible for implementing and monitoring the treasury management arrangements established by Council.	Executive Director, Finance & Planning	Y	Director of Finance
Will report to the VP Operations and the Treasurer the circumstances of any actual or likely difficulty in achieving the University's business objectives.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for short-term borrowing within limits set out by Council.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for ensuring that the University has sufficient funds to meet its liabilities as and when they fall due.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for preparing and implementing an Annual Treasury Strategy.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for preparing a report with recommendations for managing the exposure resulting from any proposed new borrowing.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for approving hedging arrangements in exceptional circumstances.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for ensuring there are statements of responsibilities for each post	Executive Director, Finance & Planning	Y	Director of Finance

engaged in treasury management and arrangements for absence cover.			
Responsible for ensuring there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for ensuring the adequacy of internal audit and liaising with external auditors.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for approving the opening of new bank accounts.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for negotiating the terms of new bank loan facilities and/or bond issuance.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for authorising investments within the strategy.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for selecting approved investment counterparties.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for all monies in the hands of the University.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for preparing cash flow projections on a regular and timely basis.	Executive Director, Finance & Planning	Y	Director of Finance
Responsible for creating a cash flow forecast for the current and next three financial years as required by the Office for Students.	Head of Financial Planning	Y	Financial Planning Team
Responsible for executing transactions.	Treasury Manager	Y	Income Team
Responsible for maintaining treasury management records.	Treasury Manager	Y	Income Team
Responsible for management information reports.	Treasury Manager	Y	Income Team
Responsible for maintaining relationships with counterparties and external treasury advisors.	Treasury Manager	Y	Income Team
Responsible for identifying and recommending opportunities for improved practices.	Treasury Manager	Y	Income Team

APPENDIX 1: AIMS, BELIEFS & CONSTRAINTS

The purpose of this section, is to summarise the Investment Aims, Beliefs and Constraints ("the ABCs") of the Investment Committee ("the IC") to support the investment of the University's funds.

The IC derived these investment ABCs with support from its Investment Consultant through an extensive questionnaire and analysis process. As part of this, the IC agreed to consider the asset pools as either:

- Short-Term Assets – capital held by the University which is expected to be spent on servicing the Bond interest payments, or spent on University projects within the next 1-3 years.
- Medium-Term Assets – capital held by the University, which is expected to be spent on University projects within the next 3-7 years.
- Long-Term Assets – referring to the Endowment Portfolio, the Bond Repayment Portfolio, and capital held by the University which is not expected to be spent on University projects within the next 7 years.

REVIEW FRAMEWORK

The IC is conscious that objectives and requirements can change over time, and will keep the ABCs under review, with formal reviews every five years.

SHORT-TERM ASSETS

Short-Term Assets refer to capital held by the University which is expected to be spent on servicing the Bond interest payments, or spent on University projects within the next 1-3 years, and includes the University's working capital.

Short-Term Assets | Overall aims

- The overarching aim is the preservation of capital in nominal terms.
- Subject to the primary objective above, a return objective to at least match the Bank of England base rate net of fees. Any level of target outperformance above this will be kept under review as University projects are identified.
- Minimise portfolio volatility.
- To ensure that the University always has sufficient liquid funds available to it which are necessary for the achievement of its business objectives, noting that there will be new monies from business activities coming in over time.
- The Short-Term Assets should target an investment horizon of 1-3 years.

Diversification | The IC should diversify the portfolios to reduce investment risk and the reliance on specific sources of return. This includes utilising a number of fund managers and counterparties to decrease concentration risk.

Risk appetite | The IC has a cautious risk appetite as it relates to Short-Term Assets when compared to the Medium-Term and Long-Term assets.

Definition of risk | Risk is defined as volatility of capital value and investment returns, noting that the preservation of capital in nominal terms is the primary aim for this portfolio.

Monitoring framework | Formal review of fund managers should be carried out annually, based on an assessment of the manager's performance over rolling three year periods. With the support of its Investment Consultant, the IC will use the quarterly monitoring framework to identify key issues and support bringing forward the formal review if required.

Environmental, Social & Governance | The IC recognises the importance of Environmental, Social & Governance factors. As such, the IC will consider investing the University's assets in line with the Paris

Aligned Investment Initiative, with a commitment to reducing carbon emissions and will consider aligning its portfolio to the goals of the Paris Agreement, assuming Governments remain committed to this Agreement. The IC will also consider other initiatives that enhance the commitment to the wider consideration of sustainability. Where the assets are not currently invested in line with these initiatives, the IC will look to ensure a just and workable transition over time.

Short-Term Assets | Beliefs

- The IC believes in considering the full investable opportunity set of asset classes suitable for the risk-return profile of the Short-Term Assets, albeit noting that certain asset classes with a longer-term investment horizon and lower liquidity will be unsuitable.
- The IC believes that active management can add value in certain asset classes, but manager selection is key. The level of active management used within the Short-Term Assets needs to be appropriate given the wider aims and constraints on risk and fees.
- The IC believes that the assets should be invested through a sustainable and ethical investment policy which is in line with the University's objectives, as set out in the University's Sustainability Strategy.
- The IC believes in Engagement over Exclusion in relation to incorporating financially material ESG factors. In particular, the IC seeks to engage with those assets which are currently behind their peer groups in terms of sustainability, but are actively in the process of transitioning. However, the IC reserves the right to use Exclusion as a mechanism for certain circumstances.
- The IC believes that Climate change is a key ESG risk which should be specifically addressed within the investment strategy.
- The IC believes that both financial and non-financial considerations should be taken into account when it comes to setting the investment strategy. An example of taking into account non-financial considerations is excluding investments on the grounds of ethical/moral views, rather than because you think those investments carry a high risk or may hinder performance.

Short-Term Assets | Constraints

Liquidity / cash flow profile | The IC should invest the assets in a way which maintains sufficient liquidity to meet any spending requirements as University projects are identified. Additionally:

- Liquid, near liquid and short-term funds should make up at least two months total payroll costs; and
- 100% of assets should be daily traded.

Portfolio volatility | Volatility of investment returns should be minimised with respect to the Short-Term Assets.

Portfolio construction | The IC believes that decisions around the strategic asset allocation should remain with the IC and not delegated to underlying fund managers. Where the underlying managers have been given some discretion, the IC should be made aware of the rationale for the allocation decisions made (e.g. split between different underlying funds).

Credit rating constraints | In relation to the Short-Term Assets, the IC will use the credit list provided by its Treasury Management advisors to identify approved investment counterparties for the cash and money market funds. The credit list uses the short and long term credit ratings provided by Fitch, Moody's and Standard and Poor's and takes account of all credit watch notices issued by these agencies. In relation to fixed income fund managers, the IC would assess the appropriateness of any credit rating restrictions to be applied to the mandate as part of the due diligence process, with support from its Investment Consultant.

Environmental, Social & Governance | The IC wishes to:

- Exclude investments which involve activity in the following areas: tobacco and/or vaping, adult entertainment, unethical lending, thermal tar and coal sands, and modern slavery.

- Engage with companies which involve activity in the following areas: animal testing, armaments, fossil fuels, and those highly exposed to climate-risk.

Asset class constraints | The IC will only invest in the following asset classes in relation to the Short-Term Assets:

- Cash deposits;
- Money Market Funds; and
- Investment grade fixed income.

Counterparty exposure | The IC will keep manager concentration risk under review and seek to maintain diversified sources of risk.

Fee constraints | Performance-related fee structures are considered unsuitable for the management of the Short-Term Assets. Additionally, investment management fees for the Short-Term Assets should be minimised.

MEDIUM-TERM ASSETS

Medium-Term Assets refer to capital held by the University, which is expected to be spent on University projects within the next 3-7 years.

Medium-Term Assets | Overall aims

The overarching aim is the preservation of capital in *real* terms (i.e. allowing for the impact of inflation). Therefore, the overall return objective is to at least match CPI inflation net of fees. Any level of target outperformance above CPI inflation will be kept under review as University projects are identified.

Subject to the above, maximise growth within an appropriate level of risk.

The Medium-Term Assets should target an investment horizon of 3-7 years.

Diversification | The IC should diversify the portfolios to reduce investment risk and the reliance on specific sources of return. This includes utilising a number of fund managers to decrease manager concentration risk.

Risk appetite | The IC has a cautious to moderate risk appetite as it relates to Medium-Term Assets, when compared to the Short-Term and Long-Term assets.

Definition of risk | Risk is defined as volatility of capital value and investment returns, noting that the preservation of capital in real terms is the primary aim for this portfolio.

Risk profile | The IC will consider how best to use the risk profile (i.e. how much risk is taken within the investment strategy) over the appropriate investment horizon. As University projects are identified, the capital may be assigned to the projects, which necessitates a further reduction in the level of investment risk at the portfolio level.

Monitoring framework | Formal review of fund managers should be carried out annually, based on an assessment of the manager's performance over rolling three year periods. With the support of its Investment Consultant, the IC will use the quarterly monitoring framework to identify key issues and support bringing forward the formal review if required.

Environmental, Social & Governance | The IC recognises the importance of Environmental, Social & Governance factors. As such, the IC will consider investing the University's assets in line with the Paris Aligned Investment Initiative, with a commitment to reducing carbon emissions and will consider aligning its portfolio to the goals of the Paris Agreement, assuming Governments remain committed to this Agreement. The IC will also consider other initiatives that enhance the commitment to the wider consideration of sustainability. Where the assets are not currently invested in line with these initiatives, the IC will look to ensure a just and workable transition over time.

Medium-Term Assets | Beliefs

- The IC believes in considering the full investable opportunity set of asset classes suitable for the risk-return profile of the Medium-Term Assets, albeit noting that certain asset classes with a longer-term investment horizon and lower liquidity will be unsuitable.
- The IC believes that active management can add value in certain asset classes, but manager selection is key.
- Portfolio volatility | The IC is aware that markets can be volatile, and takes this into account considering the aims and constraints of the Medium-Term Assets.
- Fee structures | The IC is open to appointing fund manager(s) that use a performance-related fee structure, provided the nature of the fund in question warrants its use. This would be decided through necessary due diligence being carried out prior to appointment, with support from its Investment Consultant
- The IC believes that the assets should be invested through a sustainable and ethical investment policy, which is in line with the University's Sustainability Strategy.
- The IC believes in Engagement over Exclusion in relation to incorporating financially material ESG factors. In particular, the IC seeks to engage with those assets which are currently behind their peer groups in terms of sustainability, but are actively in the process of transitioning. However, the IC reserves the right to use Exclusion as a mechanism for certain circumstances.
- The IC believes that Climate change is a key ESG risk which should be specifically addressed within the investment strategy.
- The IC believes that both financial and non-financial considerations should be taken into account when it comes to setting the investment strategy. An example of taking into account non-financial considerations is excluding investments on the grounds of ethical/moral views, rather than because you think those investments carry a high risk or may hinder performance.

Medium-Term Assets | Constraints

Liquidity / cash flow profile | The IC should invest the assets in a way which maintains sufficient liquidity to meet any spending requirements as University projects are identified. Additionally:

- 75% of assets should be daily traded; and
- 100% of assets should be realisable within three months.

Portfolio construction | The IC believes that decisions around the strategic asset allocation (i.e. the proportion invested with each fund manager) should remain with the IC. Where the underlying managers are given some discretion which enables them to use a number of underlying funds, the IC should be made aware of the rationale for the allocation decisions made (e.g. split between different underlying funds).

Risk tolerance | The following risk limits are placed on the Medium-Term Assets:

- The IC would be uncomfortable with a fall or rise of greater than between 5 and 10% in capital value over a 12 month period. If this were to occur, the IC would initiate an immediate review of the fund manager(s).

Credit rating constraints | In relation to fixed income investments for the Medium-Term Assets, no more than 20%[1] of the portfolio will be held in sub-investment grade investments.

Environmental, Social & Governance | The IC wishes to:

[1] The IC has flexibility to amend the quantum of this constraint without recourse to Council, subject to the limit remaining within a range of +/-10% of this value.

- Exclude investments which involve activity in the following areas: tobacco and/or vaping, adult entertainment, unethical lending, thermal tar and coal sands, and modern slavery.

- Engage with companies which involve activity in the following areas: animal testing, armaments, fossil fuels, and those highly exposed to climate-risk.

Asset class constraints | The IC will only invest in the following asset classes in relation to the Medium-Term Assets:

- Cash deposits;
- Money Market Funds;
- Investment grade fixed income;
- Sub-Investment grade fixed income;
- Equities; and
- Alternative credit assets, including Loans, Asset-Backed Securities, and Multi-asset credit provided these meet the other constraints set out for this pool.

Currency exposure | With respect to any funds with overseas investments, any overseas currency exposure is to be hedged back to Sterling (at the fund level).

Counterparty exposure | No more than 75%[1] of the Medium-Term Assets should be invested with a single fund manager, with no more than 25%[1] of the Medium-Term Assets in a single fund.

Fee constraints | Performance-related fee structures in general are considered unsuitable for the management of the Medium-Term Assets. Total manager fees and costs will be considered as part of any selection due diligence.

LONG-TERM ASSETS

Long-Term Assets refer to the Endowment Portfolio, the Bond Repayment Portfolio, and capital held by the University which is not expected to be spent on University projects within the next 7 years.

Endowment Portfolio | Overall aims

- Preservation of capital in *real* terms (i.e. allowing for the impact of inflation).
- Overall return objective to outperform CPI inflation by 3% p.a. net of fees.
- Provide an annual income for use in University spending.
- The Endowment Portfolio should target an investment horizon of 10-25 years.

Bond Repayment Portfolio | Overall aims

- Generate growth and reinvest income in order to accumulate £300m by 2057.
- Preservation of capital in *nominal* terms.
- At inception in November 2019, the required return over the period to 2057 was 5.8% p.a.
- The Bond Repayment Portfolio should be invested assuming no additional capital will be provided.
- The Bond Repayment Portfolio should target an investment horizon of 10-25 years, noting the overall target requirement for 2057.

University capital | Overall aims

- Preservation of capital in *real* terms (i.e. allowing for the impact of inflation).

- Overall return objective to outperform CPI inflation by 2% p.a. net of fees.
- The University capital should target an investment horizon of 7-10 years.

Diversification | The IC should diversify the portfolios to reduce investment risk and the reliance on specific sources of return. This includes increasing the number of fund managers within the Long-Term Assets as the asset bases grow, in order to decrease manager concentration risk.

Risk appetite | The IC has a moderate to high risk appetite as it relates to Long-Term Assets, when compared to the Short-Term and Medium-Term assets.

Endowment Portfolio | Definition of risk | Risk is defined as a permanent fall in capital value in real terms. Short-term volatility of capital values is a risk consideration insofar as it could express a concern from previous or prospective donors as to the sustainability of the portfolio.

Bond Repayment Portfolio | Definition of risk | Greater volatility in capital values can be accommodated within the Bond Repayment Portfolio. The key risk in the short to medium-term is permanent loss of capital as this will impact on the ability to generate the long-term required returns. The IC will therefore seek to diversify the sources of return such that there is a controlled impact that any such loss has on meeting the long-term target.

University capital | Definition of risk | Risk is defined as a permanent fall in capital value in real terms. The key risk in the short to medium-term is permanent loss of capital as this will impact on the ability to meet future University projects. The IC will therefore seek to diversify the sources of return such that there is a controlled impact that any such loss has on meeting the long-term target.

Risk profile | The IC will consider how best to use the risk profile (i.e. how much risk is taken within the investment strategy) over the appropriate investment horizon. For the Bond Repayment Portfolio, the IC would be comfortable taking more investment risk now, noting that the intention is to reduce investment risk as the 2057 target approaches. This is factored into the Risk appetite above, which will be kept under review, but is expected to be reduced substantially over the 10-year period to 2057.

Monitoring framework | Formal review of fund managers should be carried out every two years, based on an assessment of the manager's performance over rolling five year periods. With the support of its Investment Consultant, the IC will use the quarterly monitoring framework to identify key issues and support bringing forward the formal review if required.

Environmental, Social & Governance | The IC recognises the importance of Environmental, Social & Governance factors. As such, the IC will consider investing the University's assets in line with the Paris Aligned Investment Initiative, with a commitment to reduce carbon emissions and consider aligning its portfolio to the goals of the Paris Agreement, assuming Governments remain committed to this Agreement. The IC will also consider other initiatives that enhance the commitment to the wider consideration of sustainability. Where the assets are not currently invested in line with these initiatives, the IC will look to ensure a just and workable transition over time.

Long-Term Assets | Beliefs

- The IC believes in considering the full investable opportunity set, not solely relying on equities and bonds as the underlying sources of return generation.
- The IC believes that active management can add value in certain asset classes, but manager selection is key.
- The IC is aware that markets can be volatile, and takes this into account considering the aims and constraints of the Long-Term Assets.
- The IC believes that the assets should be invested through a sustainable and ethical investment policy, which is in line with the University's Sustainability Strategy.
- The IC believes in Engagement over Exclusion in relation to incorporating financially material ESG factors. In particular, the IC seeks to engage with those assets which are currently behind their peer

groups in terms of sustainability, but are actively in the process of transitioning. However, the IC reserves the right to use Exclusion as a mechanism for certain circumstances.

- The IC believes that Climate change is a key ESG risk which should be specifically addressed within the investment strategy.

- The IC believes that both financial and non-financial considerations should be taken into account when it comes to setting the investment strategy. An example of taking into account non-financial considerations is excluding investments on the grounds of ethical/moral views, rather than because you think those investments carry a high risk or may hinder performance.

Long-Term Assets | Constraints

Cash flow profile – Endowment Portfolio | The IC should invest the assets in a way which seeks to generate sufficient income to meet the spending requirements of the Endowment. As the structure of the donations impacts what is "Permanent Capital" vs what should be spent, the IC should invest the Endowment Portfolio based on the specific structure of the underlying donations.

Portfolio construction | The IC believes that decisions around the strategic asset allocation (i.e. the proportion invested with each fund manager) should remain with the IC. Where the underlying managers are given some discretion which enables them to use a number of underlying funds, the IC should be made aware of the rationale for the allocation decisions made (e.g. split between different underlying funds).

Risk tolerance | The following risk limits are placed on the Long-Term Assets:

- Endowment Portfolio: The IC would be uncomfortable with a fall or rise of greater than between 5 and 15% in capital value over a 12 month period. In addition, the IC would be uncomfortable with an unplanned fall in income of greater than between 5 and 15% relative to its target over a 12 month period. The portfolio would be designed with a low probability of this occurring (defined as a 5% chance of occurring). If this were to occur, the IC would initiate an immediate review of the strategy and fund manager(s).

- Bond Repayment Portfolio: The IC would be uncomfortable with a fall or rise of greater than between 5 and 15% in capital value over a 12 month period. The portfolio would be designed with a low probability of this occurring (defined as a 5% chance of occurring). If this were to occur, the IC would initiate an immediate review of the strategy and fund manager(s).

- University capital: The IC would be uncomfortable with a fall or rise of greater than between 5 and 15% in capital value over a 12 month period. The portfolio would be designed with a **low probability** of this occurring (defined as a 5% chance of occurring). If this were to occur, the IC would initiate an immediate review of the strategy and fund manager(s).

Environmental, Social & Governance | The IC wishes to:

- Exclude investments which involve activity in the following areas: tobacco and/or vaping, adult entertainment, unethical lending, thermal tar and coal sands, and modern slavery.

- Engage with companies which involve activity in the following areas: animal testing, armaments, fossil fuels, and those highly exposed to climate-risk.

Asset class constraints | The IC is willing to utilise the full opportunity set with regards to investment of the Long-Term Assets. However, the IC will be aware that the assets are invested on behalf of University stakeholders, and as such, they will seek to evaluate the suitability of new investment ideas over time. To enable this, the IC requires that fund managers provide full transparency on underlying components within the portfolio, and the IC reserve the right to place constraints on the managers, following advice from its Investment Consultant, should this be deemed appropriate.

Counterparty exposure | While the individual asset pools (e.g. Endowment, Bond Repayment or University Capital) remain below £75m, the asset pool can be invested in a single fund / with a single fund manager.

However, when the asset pools exceed £75m, the IC will refine the constraint such that no more than 75%[2] of the asset pool should be invested with a single fund manager, with no more than 50%[2] of the asset pool in a single fund. In terms of implementing the revised constraint, the IC will seek to refine the portfolios as soon as practical when an asset pool approaches the £75m mark.

Fee constraints | The IC is open to appointing fund manager(s) that use a performance-related fee structure, provided the nature of the fund in question warrants its use. This would be decided through necessary due diligence being carried out prior to appointment, with support from its Investment Consultant. Total manager fees and costs will be considered as part of any selection due diligence

VERSION CONTROL

Level:		**Hazard Group:**		**Version:**	2.0
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Author/Job Title:			Julie Fielder, Director of Finance – Planning & Analytics		

[2] The IC has flexibility to amend the quantum of this constraint without recourse to Council, subject to the limit remaining within a range of +/- 10% of this value.