

Investment Policy

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HERIOT-WATT UNIVERSITY INVESTMENT POLICY

CONTENT

Section	Page
1 Introduction	3
2 Purpose	3
3 Objectives	3
4 Scope	4
5 Lines of responsibility	5
6 Monitoring and Evaluation	5-6
7 Implementation	6
8 Risk Appetite	7
9 Related policies, procedures and further reference	7
10 Further help and advice	7
11 Policy Version and History	7

INTRODUCTION

Heriot-Watt University holds funds, comprising a range of donations received for various purposes (Funds). In general, the Funds' objectives are to support educational activities, providing: student support (in the form of Scholarship, Bursaries and Prizes); staff support (e.g. endowed Chairs, research funding); and funding for new strategic projects (e.g. towards new buildings, equipment, etc). These Funds are held by the University in its capacity as a registered charity and their management comes within the authority of the Office of the Scottish Charity Regulator (OSCR).

PURPOSE

The overall objective of this Investment Policy is to ensure that the University will continue to be able to meet the Funds' objectives into the future, in line with the original intentions of the donors. A particular requirement is to protect Funds in which donations were made with the requirement to deliver the specified objectives(s) in perpetuity.

OBJECTIVES

Portfolio objectives

The primary financial objective of the portfolio is to provide funding for the ongoing operations and grantmaking activity of the Funds. Over the long term, this means providing a stream of relatively predictable and stable funding in support of annual budgetary needs, and at least maintaining the portfolio's real (inflation adjusted) purchasing power after management expenses and spending.

For expendable endowments and donations, the portfolio has the secondary objective of serving as a contingency fund which may be drawn upon in the event of an unanticipated shortfall in the Fund's other funding, or of an urgent need for unplanned expenditure. This requires that the parts of the portfolio where these Funds are invested could be substantially liquidated, if necessary, at short notice. However, it does not require that capital volatility be limited to an extent which would compromise the primary financial objective.

Responsible investment

It is the University's policy to avoid direct investment in companies with significant revenue [over 1/3] arising from tobacco, cluster munitions, landmines, gambling, pornography or high interest rate lending and those which persistently fail to meet internationally recognised standards of environmental, social or governance behaviour. Statements regarding ethical investment in this policy should be construed to reflect the meaning of similar ethical statements or policies approved by the University.

In the interests of investment efficiency, the University will consider the ethical and responsible investment policies of any pooled funds through which the Portfolio may be invested, with the aim of avoiding significant indirect exposure to activities that are contrary to the University's policy applied to directly-held investments. Individual investments making up the pool would need to satisfy the University's views on ethical and responsible investment.

The University would expect any Fund Manager to ensure that there is an option for a separate fund for investment in fully Sharia-compliant Islamic investment.

SCOPE

Investment powers

The Court's power is governed by the Charities and Trustee Investment (Scotland) Act 2005. This confers a general power of investment and requires the Court to invest in a diversified range of suitable instruments (Portfolio).

The Funds are categorised as one of the following:

Unrestricted donation – the donation does not have to be invested and is not tied to specific purposes, and may be used for the general benefit of the University.

Restricted donation – the donation does not have to be invested but must be used strictly in accordance with the terms of the Fund. The terms of the Fund must have a restriction that is more specific than the general benefit of the University. This category includes donations made for capital projects.

The Court must carry out its powers of investment in line with the Terms of Reference of the University's Endowment Committee and in compliance with all legal requirements arising under UK, Scots law and international law and the jurisdictions and legal systems of all concerned campuses and legal entities of the University.

The Court must carry out its powers of investment in line with all relevant key policies.

Time horizon

The time horizon of the Portfolio is long term, i.e. more than ten years. The Funds include both permanent endowments, that have the requirement to maintain the capital in perpetuity; and expendable endowments and donations that allow expenditure of capital over varying timescales.

LINES OF RESPONSIBILITY

Responsibility for these Funds, held by the University, lies with the Court. The members of the Court are the Trustees for these Funds and have delegated authority for oversight of the Funds – their stewardship and application - to the Endowment Committee which is required to report regularly to the Court. This includes regularly monitoring the general and financial management of the University's funds, managing their legal aspects, ensuring relevant reporting to and interaction with the OSCR and any associated compliance, and the regular monitoring and assessment of the risks and performance of any invested parts of the Funds to fulfil objectives. The Endowment Committee will normally employ the services of a properly qualified investment Fund Manager to advise on the detailed investment strategy and to advise on and execute the Investment Policy.

The Endowment Committee is also responsible for overseeing fundraising activities, especially those undertaken by the Development Office. The Endowment Committee must pay close attention to the University's ethical policies and any guidance received from the Governance and Nominations Committee.

Any amendment to this Policy, the establishment of new investment relationships, transferring Fund's assets into different investment products or any material disinvestment requires the approval of the Endowment Committee, the Finance Committee and the Court. Where urgent action is required, approval will be sought by correspondence.

The Endowment Committee reports directly to the Finance Committee which in turn reports to the Court, the main governing body of the University, and subject to the Charter and Statutes (*Statute 4: The Court* defines the powers, functions and composition of the Court).

MONITORING AND EVALUATION

Fund Managers

The Fund Manager must have a minimum of five years' proven track record in the charity sector, experience of management of similar customers and a proven track record of managing similar fund levels, and be financially secure. Specific experience within the education charity sector is preferable.

The University's investment must comprise no more than a maximum of 5% of the Fund Manager's fund.

The Fund Manager must have a total expense ratio that is reasonable compared to the peer group to ensure value for money.

The University should ensure that its Fund Manager, or any other of its agents, are aware of this Policy and have the expertise and capacity to implement it.

The University would expect to receive value-added benefits from its Fund Manager to include, for example, training for Committee members, trustees and students, advice on preparation of policy and related documents, and other actions commensurate with the trusted position of Fund Manager.

The University's Fund Manager should be subject to periodic review to ensure that this investment policy, including its ethical requirements, is being adhered to, and that the service provider represents the best value for money for the University. To meet this requirement, any Contract appointing a Fund Manager shall be for no longer than five years, with adequate break points.

If it becomes apparent that the Fund Manager is failing to meet the University's investment objectives, as defined in this policy, and the requirements and/or service levels of the Contract, then the Contract shall be terminated and a re-tendering exercise should be conducted with a view to replacing the Fund Manager at a stipulated break point of the Contract.

If it becomes apparent that an alternative Fund Manager may be better placed to provide the fund management services in accordance with the University's investment objectives, as defined in this policy, then a re-tendering exercise should be conducted with a view to replacing the provider at a stipulated break point of the Contract.

IMPLEMENTATION

Review of policy

This policy shall be reviewed by the Endowment Committee on a three-yearly basis or more frequently, should need arise.

Amendments to the Portfolio

Amendments that are required to the Portfolio of Fund investments as a consequence of approving this Policy will be implemented within 12 months of the Policy approval date, at the latest, subject to market conditions.

Where the University currently holds Fund investments in entities which do not comply with the ethical criteria set out above, the investment will be sold and reinvested in a compliant investment vehicle within one year of the approval of this Policy, subject to market conditions.

Where the University holds Fund investments in an entity which falls outside of the ethical investment criteria outlined above then a reasonable grace period will be allowed for the entity to return to a state of compliance. If it becomes apparent that the entity is likely to persist in a state of non-compliance then the investment will be liquidated and the proceeds reinvested in a compliant investment vehicle.

Performance targets and comparators

Funding target: the Endowment Committee may set and review from time to time funding targets, consistent with the Portfolio Objectives.

Investment return target: the Endowment Committee may set and revise from time to time targets for average annual total return.

The University recognises that this is a long term target that can only be assessed fully over the course of a business cycle, which may be ten years or more. Over shorter time periods, performance will be measured against market index benchmarks and peer group portfolio comparators.

Within total return, the University values an attractive regular funding stream which is fairly consistent (in absolute terms) from year to year and which can be expected to grow over time to maintain its real spending power. However, the total return target takes priority and the University does not wish to impose any short term funding target which might damage the long term sustainability of returns.

RISK APPETITE

The key risk to the long term sustainability of the funds is inflation or deflation and the assets should be invested to mitigate this over the long term. The University understands that this is likely to mean that due to the nature of the investments, the capital value will fluctuate.

The University is able to tolerate volatility of the capital value of its investments as long as current expenditure can be met from investment funding and occasional drawdowns of capital may be made to meet the needs of individual expendable endowment funds.

RELATED POLICIES, PROCEDURES AND FURTHER REFERENCES

- Ethical Business: Charitable Gifts Acceptance Policy
- Charities and Trustee Investment (Scotland) Act 2005

Further details are contained within the accompanying Investment Procedures document.

FURTHER HELP AND ADVICE

Further help and advice can be sought from the Director of Finance using the below contact details:

Mr Andrew Menzies
Director of Finance
Moyen House
Heriot-Watt University
Edinburgh
EH14 4AS
Telephone: 0131 451 3597
E-mail: A.M.Menzies@hw.ac.uk

POLICY VERSION AND HISTORY

This Policy replaces the *Endowments Investment and Management Policy* approved by the Court on 29 June 2009.