HERTFORD COLLEGE

STATEMENT OF INVESTMENT POLICY

May 2024

Replaces all previous versions

BACKGROUND

Responsibility for managing the College's endowment (and broader investment portfolio) rests with the Governing Body.

The Governing Body delegates various day to day investment management tasks to various of the Treasury Committee, the Investment Fellow, and the Investment Advisory Committee, on terms that are set out in the College's bye laws.

This policy provides the terms upon which the Governing Body has agreed that its investments shall be managed, and by which all those carrying out delegated duties shall therefore be bound.

The College holds investment assets that are not part of its endowed funds. It is the College's policy to manage such assets in the same manner as the endowed assets, and as a single portfolio, albeit that income for such assets is accounted for on an earnings (rather than a total return) basis. For the purposes of this policy, the term endowment is used to refer to the whole investment portfolio.

INVESTMENT OBJECTIVE

The College seeks to manage its endowment to support the College's charitable educational aims. The College's aims are identified in its Statutes. In pursuit of this, the endowment's investment objective is to preserve, and preferably grow, the real value of its assets over the long-term, after providing for annual distributions of up to 4.25% per annum. We aim to do this while taking acceptable levels of investment risk and adhering to the College's Policy on Socially Responsible Investment (Appendix I). The investment objective is therefore a target total return of at least UK CPI plus the agreed distribution rate (currently 4.25% per annum), net of all fees, over a rolling 5-year time horizon and to ensure that the portfolio at least maintains its real value, and preferably grows.

Several core investment beliefs drive asset allocation in the endowment overall:

- We seek to use the advantages of our long-term investment horizon and our ability to tolerate short-term volatility, which are underpinned by our governance structure.
- We seek to maximise risk-adjusted returns from global economic activity and to have a portfolio invested with no innate geographic bias.
- Excessive concentration in a single asset poses a significant threat, should the value of that asset be permanently impaired or destroyed, hence the portfolio is managed to ensure adequate diversification.

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- Given the size of the portfolio and the limited resources available, the best returns will generally be driven by creating aligned partnerships with the strongest external managers. However, we retain the option to own assets directly.

- We are flexible as to the nature of the vehicles in which we invest. However, we will not knowingly invest in structures or assets which create potential unlimited financial liability or significant adverse operational, reputational, or legal liability.

- Inflation can significantly impact real long-term purchasing power. Hence, most of the portfolio is invested in assets where cash flows are expected to exhibit some protection in real terms. These may include private or public corporate equity, property, and infrastructure.

ASSET ALLOCATION

The College will specify a target allocation for investment in different categories of investment and specify a permitted range for each. These targets and ranges will be reviewed annually. Asset allocation ranges for the overall endowment will be as follows:

Asset	Minimum	Maximum
Cash and bonds	2%[1]	20%
Public equities	30%	60%
Private equity	0%	40%
Property	0%	30%

Asset Mix

The Portfolio will be invested in accordance with each external manager's strategy, with the overall mix designed to meet the investment parameters set out in these Investment Guidelines, and subject to regular review by the Investments Advisory Committee.

Currency

Portfolios are to be denominated and valued in Pound Sterling. Investments may be made in non-Sterling assets.

Volatility

The College is a long-term, largely unconstrained investor and therefore able to withstand volatility and fluctuations in capital value. However, the volatility of the Portfolio will be monitored and reported to the Investments Advisory Committee. In normal circumstances, the rolling 3-year volatility of the portfolio will not exceed that of global equities.

Diversification

No individual holding (excluding pooled funds or UK government bonds) should exceed 10% of total portfolio value.

[1] Sufficient to provide for at least the next 2 quarters of distributions without recourse to the invested asset base.

Leverage

The College uses leverage where appropriate, for example via the periodic issuance of long dated, fixed rate bonds. Discretionary investment managers are not permitted to use borrowings to leverage returns.

Liquidity

At least 20% of the whole portfolio should be readily realisable within three months. The liquidation period shall be deemed from time of instruction to receipt of proceeds. To assist portfolio management, the cash and bonds allocation shall be invested in a separate Sterling Liquidity Reserve portfolio. The purpose of the Sterling Liquidity Reserve portfolio is to provide a low-risk capital reserve to fund the College's capital projects and operational cash requirements over a 1-3 year period. The investment objectives of the Sterling Liquidity Reserve Portfolio are to 1) preserve capital (as a primary investment objective) and 2) outperform relevant cash and short term bond market benchmarks (a secondary investment objective).

Income Requirements

With adoption of Total Return investing, no specific income targets have been set.

Liabilities

The manager shall not enter any contracts or investments where the Portfolio may be subject to unlimited liability.

SOCIAL RESPONSIBILITY

The College is mindful of its responsibilities to invest to provide long term sustainable returns for current and future support of the college's objects. In its direct investments, the college will:

- not invest in tobacco companies or in companies with more than 10% of turnover in mining thermal coal or tar sands, gambling, armaments or pornography.
- not invest in fossil fuel companies that do not take seriously their responsibilities to assist with the transition to a low carbon economy.
- not invest in companies on the exclusion and observation list of the Norwegian Sovereign Wealth Fund (as of 03 December 2019) https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/
- avoid companies that pursue predatory lending, aggressive tax avoidance, or have poor corporate governance, or operate in violation of international law.
- prefer to invest in socially responsible companies with high governance standards and sustainable environmental programmes in compliance with the UN Principles of Responsible Investment

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