HOMERTON COLLEGE INVESTMENT POLICY

Last Approved by College Council: January 2022

A. Introduction

The Investment Committee, which reports to the Council of Homerton College, has drawn up this Investment Policy to affirm the investment principles that govern decisions about the investment of the College's expendable Endowment.

In this Policy the Endowment is taken to be the value of the Investment land (Western site and commercial property on Homerton Business Centre) and the "Fund" or "Investment Portfolio."

B. Background

The College was established under Royal Charter in 2010 with the following objectives:

a. For the public benefit to advance education, religion, learning and research within the University of Cambridge
b. For the public benefit to provide for persons who shall be members of the University, a College wherein they may work for degrees of the University of Cambridge

All the resources of the College are ultimately applied for the charitable purpose.

The College is a registered charity, subject to regulation by the Charity Commission for England and Wales. Charity Commission guidance places Trustees under an obligation to:

- Establish the overall investment policy and objectives for the charity taking into account the balance between risk and return that is right for their charity and whether to adopt an ethical, socially responsible or mission related approach to investment and ensure that it can be justified;

- Take advice from someone experienced in investment matters unless they have good reason for not doing so and review investments (and their investment manager) from time to time, changing them if necessary.

C. Governance

Statute 33 and Ordinance 1 of the College's Statutes and Ordinances gives the Council the responsibility for the oversight of the financial affairs, including the investment and application of capital monies, of the College in accordance with policies and strategies approved by the Governing Body.

Under Ordinance 28 the Council shall appoint an Investment Committee whose remit is outlined in Schedule 5.7 which is appended to this policy.

D. Development of the College and the Endowment

The College Endowment was built up through the development of the land and buildings, lease of land and buildings to the University of Cambridge, the operation of the conference business, a decade of NHS contracts for nurse education and training and the subsequent sale of that business, and the return from investing the money from these investments.

The Submission for the Royal Charter required Homerton College to have a minimum Endowment of £51.47m using 2006-7 data. The College was assessed to have an Endowment of £54.6mn which consisted of cash and investments of £38.6mn; investment land (Western site) £11.6mn and a capitalised value of its conference business of £4.4mn. The Endowment required reflects the size the student body of the College and its teaching staff. There is no on-going requirement to meet the minimum Endowment however the formula is currently used to assess a College's access to funds from the Colleges' Fund and its tax under Statute G II. In FY21 the College was assessed for tax under Statute G II at £38,000 (FY20-£37,000).

The Western site (essentially the College playing fields) had planning permission for c.85 residential units; Harrison House built in 2008 crystallised the planning permission but also satisfied the affordable housing requirement. In 2015, permission was obtained to build a Graduate Accommodation Block on the previous footprint of a residential block. Morley House opened with 112 rooms and MCR in September 2016. The remaining land was revalued at 30 June 2016 at £6.4m and £8.1m was transferred to Tangible Fixed assets being the valuation of the land on which Morley House stands. This part of the Endowment is non-income earning. Value 30 June 2022: £6.6m.

The College Investment assets for FY21 was 9th (out of 31) (FY20 – 11th) of the Colleges. The Investment Committee considers the appropriateness of the size of the endowment annually and determined) that the current Endowment was probably at the right level for the College assuming that income from student numbers remained at the current levels and conference income returned to previous levels, supported by the addition of new sources of income such as increased Development activity and income from the Homerton Business Centre.

Fund-raising has not, as yet, formed a major part of Homerton's funding strategy unlike that of other Colleges. It is an area in which Homerton significantly underperforms other Colleges although the receipt of a legacy in June 2022 suggests this might be changing. Donations totalled £1.4m in FY21 (FY20 £248,000) compared to an average of all Colleges for FY21 of £4.2m (FY20 £3.1m). Growth of income in this function would provide a valuable fourth contributor to the sustainability of the College's funding outside of the return on the investment portfolio, property leases and conference income.

E. Endowment Drawdown

At the heart of the College's financial strategy is the "Spending Rule" which provides the fiscal discipline for the endowment, setting a compromise between two competing objectives. The first objective is to release a substantial level of income to cover operational and capital expenditure and the second objective is to protect the value of the Endowment assets against inflation.

The Investment Committee continues to propose (November 2021) that, whilst investment returns remain relatively benign, a Spending Rule of 3% of the average of the three previous years' investment portfolio including income-earning property assets less long-term debt, should be the guiding principal for expenditure on both the estate and the Education Account. Whilst investment in Education and ongoing refurbishment and replacement of equipment should fall within these guidelines, investment in new buildings as envisaged in the Estate Strategy will require separate funding.

F. 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
- Choose investment managers to manage a portfolio which meets the long-term return objectives of maximising investment returns with an agreed level of risk

G. Investment Objectives and Risk

The College is a long-term investor and recognises there will be fluctuations in market values. It has a moderate risk profile and is indifferent between returns from income and capital gains.

The College believes that maintaining a diversified portfolio of high-quality assets is an appropriate policy to protect the real value of the capital base and provide protection against inflation risk. It has diversified its portfolio into investment property and has a 25-year lease to its major tenant which provides less fluctuation in income.

At 30 June 2021 property assets represents 37% of the total investment assets value which aligns with the average for all Colleges although the proportion of property within the Endowment of the "older" Colleges (pre-1880) and larger endowed Colleges tends to be higher than younger Colleges.

Within this framework the College's primary objective is as follows:

- To seek to maintain the value of the invested Fund in real terms, i.e. 1% above inflation. The actual total return target is RPI +4% per annum (net of all investment fees and costs) over 5-7 years in order to sustain a spending rate of 3% over a trailing 3-year average.

- To maintain a predicted annual standard deviation of returns on the Fund below 12%.

This should be the basis for setting the appropriate long-term portfolio strategy. The College's requirement in terms of total return target and exposure to risk should be reviewed regularly.

H. Investment Strategy

Given the investment objectives, the Committee has agreed a broad investment strategy detailed below. The main features of the College's investment strategy are to:

- Manage the portfolio on a total return basis
- Adopt a strategy seeking to achieve an annual return of RPI + 4% over the long term, net of fees
- Accept some volatility commensurate with aiming to achieve the return target

- Invest (directly or via 3rd party funds) in a variety of different types of investments. The main types of investments may include:
    - Cash
    - Government bonds
    - Corporate bonds
    - UK equities
    - International equities
    - Hedge funds
    - Real estate
    - Private equity or venture capital
    - Commodities/precious metals
    - Derivatives
- Use active managers where it is reasonable to expect that the performance benefits will outweigh the additional costs.

The Investment Committee will seek guidance from their investment managers annually as to whether the return objective and the risk tolerance remain appropriate.

I. Management Strategy

The College's main stock market investment will be managed by specialist professional firms operating under discretionary mandates within the framework of this policy.

The major part of the portfolio will be retained with a single manager. Other portfolio may be maintained in order to:

- Maintain a view on alternative investment management strategies
- Reflect a short-term variation in risk appetite

Appropriate benchmarks will be agreed with each manager to allow monitoring of performance investment performance against the primary objectives and benchmarks will be reviewed at least annually.

A formal review of the appointment of Investment Managers will be undertaken, at intervals of not more than 5 years. The last review took place in 2020.

Professional advisors will be retained in connection with the commercial property portfolio.

J. Ethical Policy and Corporate Governance

The College adheres to the Charity Commission guidance on ethical investments and the Investment Committee may, from time to time, where it is consistent with that advice, direct the investment managers to consider the ethical nature of its investments.

The Investment Committee, through its investment managers, is seeking to invest long-term in assets which demonstrate a sustainable investment performance. It is therefore natural that considerations of an environmental, social and governance nature will be taken into account when acquiring, managing and trading in holdings. The Investment Committee will also encourage their equity managers to discharge their responsibilities in accordance with their own corporate governance policies and taking into account the UK Corporate Governance code, UN Principles of Responsible Investment and the UK Stewardship Code.

The Investment Committee will also monitor, through its investment managers, its holding of so called "sin stocks" and investments in industries dependent on fossil fuels. The College has not had any direct investments in stocks engaged in fossil fuel extraction for some years and consideration of long-term investment and ESG matters would prohibit such Investments. Through funds the College does have some investments in fossil fuel extraction which represents less than 0.2% of the investment portfolio. The Investment Committee consider this a de minimus amount.

A broader Ethical Investment Policy has been approved by College Council in January 2022.

K. Responsibilities

The Investment Committee shall advise the Council on the Investment Policy of the College including an assessment of the balance of risk and return, strategic asset allocation and appointment of advisors and managers.

The Investment Committee will undertake to review investment performance regularly and at least every 6 months. It will make an Annual Report to the Council covering its activities and the performance of the College's investment in Michaelmas term each year.

L. Review of the Investment Policy

The Committee will review the Investment Policy at least once every three years and without any delay after any significant change in investment policy. It will be submitted to the Council for approval when changes are deemed necessary.

Appendix I ***STATUTE 33***

The investment and application of capital monies

(i) The Council shall have power to authorise the purchase, sale or transfer of property, real or personal, and securities (which term includes stocks, funds and shares) of any description on behalf of the College.

(ii) In relation to the management, development, improvement, sale, lease, mortgage or other disposition of any land or any estate or interest therein held by the College, or to the acquisition of any land or any estate or interest therein, the Council may exercise any power and may carry out any transaction which an individual, holding or acquiring such land, estate or interest for their own benefit, could exercise or carry out.

(iii) The powers conferred by this Statute shall apply to all endowments, land, securities, property and funds of the College. They shall also apply to any specific trust for purposes connected with the College of which the College is trustee which existed on the date of the approval of these Statutes by Her Majesty in Council; and, to the extent that the law permits, they shall also apply to any such fund created after that date.

(iv) In order to facilitate the management of College Funds and Trust Funds under the College's control, the Council may at any time resolve that all or any part of the endowments or other funds of the College and of the funds of any specific trust for purposes connected with the College of which the College is a trustee (hereinafter called the constituent funds) be treated as a consolidated fund invested for the rateable benefit of the constituent funds

Ordinance 1 The Council

The following responsibilities shall be delegated to the Council:

oversight of the financial affairs of the College in accordance with policies and strategies approved by the Governing Body.

Ordinance 28: the Council shall appoint an Investment committee whose remit is outlined in Schedule 5.7

Schedule 5.7 The Investment Committee

(a) The Council shall appoint an Investment Committee. The membership of the Investment Committee shall be the Principal or the Vice-Principal, the Bursar, two members appointed by the Governing Body from amongst the Fellows and up to three additional members appointed by the Governing Body on the nomination of the Council, who shall be persons of suitable professional qualification and experience. The external appointees shall be chosen to provide, as far as possible, the breadth of experience and knowledge needed to guide the College's investment strategy.

(b) The appointed members shall serve for periods of three years with the option of re-appointment.

The Committee shall be responsible for:

(i) reviewing the portfolio of investment assets of the College, including an assessment of the balance between risk and return and providing the Council with the best estimate of the level of annual distribution from the Endowment which is consistent with the maintenance of the real value of the College's assets in the long term;

(ii) monitoring the performance of the portfolio, with the College's investment managers and agents as appropriate;

(iii) advising the Council on the investment policy of the College, paying regard to the College'" wish not to engage in investment activities which are counter to its charitable objectives in accordance with Charities Commission guidelines on Socially Responsible Investment.

(c) The Committee shall make a report to the Council at least once a year. The report shall include a list of securities held by the College and state its current investment strategy. This report shall be submitted by the Council to the Governing Body.

(d) The quorum for the Committee shall be two thirds of its membership, to include the Bursar and two other members of the Governing Body. Any decision by the Investment Committee shall be by majority, with at least three members in favour, one of whom must be a member appointed by the Governing Body.

(e) The Council, on the advice of the Investment Committee, may appoint a firm of stockbrokers or investment bankers as agents of the College for the purpose of varying or adding to the investments of the College. The firm appointed may be given discretionary powers to act within the scope of general instructions given by the Investments Committee and representatives of the firm shall attend meetings of the Committee at least twice a year.

(f) The Bursar shall be authorised to give the necessary instructions to the agents of the College to implement its Investment Strategy.

Appendix 2 Investment Managers

UBS were appointed Investment managers in 2004 with the understanding that a formal assessment would be undertaken every 3 years. In 2007 UBS were reappointed and undertook an asset class optimisation exercise which resulted in a re-allocation of some assets to PE and Hedge Funds.

In March 2009, the Investment Committee instructed the Bursar to draw up a list of alternative management. The Trustees decided in July 2009 to defer the review of investment advisors for 2 to 3 years in the face of exceptional economic conditions.

In 2015, the Investment Committee tendered the management of the Investment Portfolio and awarded the management of the portfolio to Rothschild. Most of the portfolio had been transferred by September 2015. The private equity assets were retained with UBS to maturity.

In 2020, the Investment Committee assessed the performance of Rothschild & Co and decided to appoint them for a further 5 years.