The Principal and Fellows of St Hugh's College in the University of Oxford

Charity Registration Number 1139717

Investment Policy, v3 February 2021

1. Purpose of Policy

This policy sets out the goals and investment objectives of St Hugh's College, an eleemosynary chartered charitable corporation aggregate, which aims to provide for members of the University of Oxford the protection and training of an academic house, conducted according to the principles of the Church of England, but with full provision for the liberty of those who are not members; and to do all such other things as are incidental or conducive to advancing education, learning or research in Oxford or elsewhere.

The Governing Body of St Hugh's College ("the College") has agreed to delegate and appoint the investment management responsibility of the funds to professional investment fund managers, whose appointment shall be reviewed from time to time.

It is the responsibility of the Investment Managers to ensure that the portfolio is invested and remains appropriate to meet the requirements as set out by this Investment Policy Statement or as discussed and agreed in writing during the life of the Investment Management relationship.

In order to ensure the return and risk guidelines are adhered to, the portfolios will be scrutinised no less than once per academic term by the Investment Committee who will invite Investment Managers to report to them directly as appropriate. Governing Body reserves the right to appoint third party independent specialists to conduct periodic Investment Reviews from time to time, as required.

The assets of the College are split between College property fixed assets & Investment assets. The College property fixed assets are held and used to meet the charitable purposes of the organisation, advancing education, learning or research. The investment assets are held to meet the financial requirements of the College and are part funded by debt, which is repayable in the future.

The College's investment assets as at 31 July 2020 totalled £98.3m. This total comprised of:

- £ 23.7m in permanent endowment.
- £ 11.3m in expendable endowment.
- £ 1.4m in shared equity properties.

- £4.3m in non-permanent restricted funds.
- £6.3m in non-permanent unrestricted funds.
- £51.3m in private placement debt investment funds, which has a corresponding £50m liability.

(i) Scope of Investment Powers

The College's powers of investment are defined within Statute XII of the College Statutes, which states:

Statute XII[1]

XII. POWERS OF INVESTMENT

1. This Statute shall apply to all funds and endowments of the College which are not held to any specific trust.

2. The Governing Body may from time to time appoint a Financial Adviser to the College who shall be a person experienced in investment matters carrying on business in the City of London or other appropriate financial centre in the United Kingdom.

3. The Funds to which this Statute applies may (subject as hereinafter provided) be invested by the Governing Body upon or in such securities shares stocks funds or other investments in any part of the world and whether involving liability or not as the Governing Body shall in their absolute discretion think fit so that the Governing Body shall be empowered to invest and transpose the investments of such funds in the same unrestricted manner as if they were the beneficial owners thereof, and this shall be done with the advice of an investment committee consisting of the Principal, the principal Administrative Officer, one member appointed by the Governing Body from among its members and the Financial Adviser to the College.

4. Provided that:-

(a) Any investment made under the foregoing power of capital moneys paid to the Minister of Agriculture, Fisheries and Food under the Universities and College Estates Act, 1925, or of funds representing such capital moneys shall require the same consent of the said Minister as is required for an investment made in exercise of the powers confirmed by that Act.

(b) Nothing in this Statute shall authorise any sale or exchange to which the consent of the said Minister is required by Subsection (2) of Section 2 of the Universities and College Estates Act, 1925.

5. In order to give effect to the provisions of the foregoing Clauses

(i) The Governing Body may from time to time appoint one or more suitably qualified Investment Managers to carry out on behalf of the College the duties prescribed by this Statute on such terms as (subject to and in accordance with this Statute) the Governing Body shall think fit.

[1] *As amended by Orders in Council dated 19 January 1976, 10 February 1999.*

(ii) A person (which expression in this Statute includes a person, persons, firm, or company) shall be suitably qualified to be Investment Manager if it is shown to the satisfaction of the Governing Body that:

(a) such a person (or, in the case of a subsidiary company whose obligations under the relevant terms of appointment will be guaranteed by the parent company, that parent company) has at least 10 years' experience in the City of London (or other appropriate financial centre in the United Kingdom) of investment business; and

(b) is entitled to carry on investment business in accordance with the Financial Services Act 1986 (or other relevant legislation replacing the Act);

(c) except that if all other conditions of (a) and (b) are satisfied the Governing Body may appoint as an Investment Manager a company with less than ten years' experience provided that the College has done business with one or more of its principals for at least five years and that they shall each have at least ten years' qualifying experience.

(iii) The College may pay reasonable and proper remuneration to an Investment Manager appointed and acting in accordance with this Statute.

(iv) The Governing Body may delegate to an Investment Manager appointed and acting in accordance with this Statute power at his or her discretion (but always in accordance with this Statute and the terms of his or her appointment) to buy and sell investments held on behalf of the College; and such delegation may permit those investments to be held by a nominee.

(v) The terms of appointment of any Investment Manager shall be in writing and shall:-

(a) specify the relevant investment policy for the College and the scope of the Investment Manager's discretion; and

(b) require the Investment Manager to comply with the terms of his or her appointment and with these Statutes, the relevant University Statutes and the general law (including any provision relating to the keeping and supply of records and accounts); and

(c) prohibit the Investment Manager from sub-delegating or assigning his appointment; and

(d) specify the amount or method of calculation of the Investment Manager's remuneration or both; and

(e) entitle the Governing Body to terminate the appointment at any time on reasonable notice; and

(f) specify other circumstances in which the appointment may be terminated by either party and (subject to earlier termination) its maximum duration which shall not exceed twenty-four months on any one occasion (but subject if so specified to renewal from time to time by mutual agreement); and

(g) specify the relevant advisory, reporting and accounting procedures; and

(h) state whether or not the investments may be held on behalf of the College in the name of a nominee and (if so) on what basis and by whom.

(vi) The Governing Body shall take reasonable steps (and if necessary shall take appropriate advice) to satisfy itself when making any such appointment that its terms are in accordance with best practice at the relevant time. In order to ensure that the Governing Body always has adequate information as to and appropriate control over the investment, funds or other assets of whatever nature to which the appointment relates the Investment Manager shall be required:-

(a) to review and report in writing to the Investment Committee at least once each calendar year on the College's investment policy and the performance of and the future prospects for the College's investments, and to give any relevant advice; and

(b) to report to the Investment Committee at once on any significant changes since the last such review and report which may in his or her view require early attention by the College; and

(c) to report to the Senior Bursar on every transaction within 7 days of its execution; and

(d) to account to the College quarterly.

(viii) The College Seal shall not be affixed to any document by the Investment Manager.

(ii) Governance

Statute I.6 stipulates that Governing Body may appoint committees and delegate to them such powers as it may think fit. Notwithstanding this, Governing Body remains the ultimate decision-making authority for all matters pertaining to investment, noting that Bylaw I.9 states:

The Governing Body shall make no decision involving major expenditure or loss of income without reference to the Finance Committee.

Therefore, Governing Body delegates consideration of investment matters to the Investment Committee, which shall report to the Finance Committee for consideration of all matters of expenditure or loss of income. The Finance Committee will then recommend (or not) to Governing Body the actions in turn recommended to it by the Investment Committee.

Bylaw II.Q governs the Investment Committee and states:

Q Investment Committee

a) In accordance with Statute XII the Committee shall consist of

(i) the Principal, Chairman

(ii) the Bursar, Secretary

(iii) the Financial Adviser to the College (Statute XII.2)

(iv) two persons elected by Governing Body from among its members.

The Vice-Principal shall be invited to attend and shall be sent all papers but shall not have a vote except in the absence of the Principal.

The Committee may invite persons experienced in investment matters to attend meetings.

b) The duties and powers of the Committee shall be

(i) to review the investments of the College;

(ii) to advise the Governing Body from time to time on the investment policy of the College;

(iii) to direct the Bursar to make and alter investments in the 'Pool' under Article X of the Scheme for administering certain funds of the College under the Universities and Colleges (Trusts) Act, 1943, section 2;

(v) to advise the Governing Body under Statute XII.2 on investment of all funds which do not form part of the 'Trust Funds Pool';

(vi) to make recommendations to Finance Committee each year concerning the amount of income available to be drawn.

c) The Committee shall meet at least once a year and shall transact business at other times either by circulation or in Special Meetings.

At its meeting on 20 May 2015 Governing Body resolved that the Investment Committee should meet once per term. As at TT19, the Committee has three alumni who are all experienced in investment matters, and who act as advisors to the Committee.

2. Investment Objectives

(i) College Property Fixed Assets

The College Property Fixed Assets are held to support the charitable general purposes, the value of which are reviewed as appropriate in line with the accounting policy stated within the annual financial statements of the College.

(ii) Endowment Funds

The College's investment objectives for its endowment funds are to balance current and future beneficiary needs by:

- maintaining (at least) the value of the investments in real terms;
- producing a consistent and sustainable amount to support expenditure net of costs; and
- delivering these objectives within acceptable levels of risk.

Currently Endowment funds are invested with CCLA, Sarasin & Partners and Oxford University Endowment Management, in actively managed funds.

To meet these objectives the College's endowment investments as a whole are managed on a total return basis, maintaining diversification across a range of asset classes in order to produce an appropriate balance between risk and return. In line with this approach, the College statutes allow the College to invest permanent endowments to maximise the related total return and to make available for expenditure each year an appropriate proportion of the unapplied total return.

The investment policy and strategy are set by the Governing Body as advised by the Investment Committee from time to time and performance is regularly monitored by the Investment Committee.

The carrying value of the preserved permanent capital and the amount of any unapplied total return available for expenditure was taken as the open market values of these funds as at 1 August 2002 together with the original gift value of all subsequent endowment received.

On the total return basis of investing, it is the Governing Body's policy to extract as income 3.77% (plus costs) of the value of the relevant investments. However, to smooth and moderate the amounts withdrawn this 3.77% is calculated on the average of the values as at 31 December in each of the last five years. The Governing Body will keep the level of income withdrawn under review to balance the needs and interests of current and future beneficiaries of the College's activities.

Within the College's holdings of securities and investments, this income extraction policy is not applied to all elements of holdings. There are two funds held with Oxford University's Endowment Management, one fund known as the College Contribution (CCC) fund does not have the income extraction policy applied to it as it relates to College Contribution funds awarded through the University, the second fund is related to College Endowment funds and does have the income extraction policy applied to it. The joint equity properties, which are listed in the notes of the financial statements, are also not part of the income extraction policy. Any income distributions issued by Oxford University Endowment Management CCC fund and the joint equity property investments are treated as income as they are received.

(iii) Private Placement Debt Funds

- £50m placement debt funding was issued in September 2017, with Pension Insurance Corporation (PIC).
- This was split into 2 tranches with £25m repayable in 2061 and £25m repayment in 2066.
- £45m has been invested with Sarasin & Partners in an actively managed fund.
- £5m was held in cash in the College deposit bank account, £1.8m was used to repay existing Barclays' loans, leaving £3.2m in cash

The Private Placement Debt Funds, held with Sarasin & Partners, are divided into two tranches: a long-term tranche of £30m and a medium-term tranche of £15m.

The strategy for the £30m long-term tranche is to:

- form a long-term investment pot equivalent to a restricted endowment which must be used for the purposes of servicing the debt's capital and interest requirements;
- achieve capital growth sufficient to meet the ultimate capital repayment of £25m after 45 years in 2061 and £25m after 50 years in 2066; AND
- generate income sufficient to meet (in the early years) the majority of the interest liability on the debt sum and (in the later years) all of the interest obligations for the debt sum.

The strategy for the £15m medium-term tranche is to:

- form a medium- to long-term investment pot equivalent to a general purposes endowment with potential to be spent down;
- generate income to support the interest liability any surplus return on the investment after the interest liability on the debt has been paid is to be used to fund working capital for the needs of the College's estate.

On 7 March 2018 Governing Body agreed that the approved potential uses for this fund included:

a) If the St Hugh's Future Project is entirely donor funded
    i. in the period that the building is under construction, the £15m should be invested and interest from that investment used to meet the balance of the interest requirement for the debt; and
    ii. to contribute to working capital, to enable the College to invest more in refurbishment of the Estate, either through its income/capital growth or by a spend-down strategy.

b) If the St Hugh's Future project is not entirely donor funded
    i. this tranche is available to underwrite any gap in funding; or
    ii. to provide funds to allow the College to revert to a simpler proposal for the new building, should this become necessary; and
    iii. any funds from this tranche used to underwrite a building project should be replaced by philanthropic donation toward that building project as quickly as practicable.

(iv) Shared Equity Housing

The objectives for this element of the College's investment are:

- to provide a mechanism for assisting Fellows to purchase property in Oxford, thereby facilitating recruitment and retention;
- to provide a mechanism by which the College gains direct exposure to the property market;
- to benefit from capital gain in the property market.

The limits on investment into shared equity housing are reviewed from time to time by the Finance Committee. The upper limit for total investment by the

College stands at £2.5m, this was proposed at the Finance Committee in January 2016 and confirmed at Governing Body in February 2016. Governing Body on 2 December 2020 approved that each investment in a shared equity property is capped at £200,000 or 50% of the purchase price of the property, whichever is lower. Prior to this the investment was £150,000. The Fellow's interest in the property is funded by their own resources and/or that of a building society or bank. Ownership of the property is divided in shares reflecting each party's percentage contribution to the overall purchase, and is governed by a Deed of Trust between the College and the Fellow.

Although there is a small rent payable by the Fellow to the College in respect of the College's portion of the property, rental income is not a primary objective of this investment type.

3. Risk

(i) Attitude to Risk

(a) The Endowment
St Hugh's College relies on the endowment producing a consistent and sustainable level of income to support expenditure on charitable activities. Stability of the endowment value and total return is therefore important to the College.

The key risk to the long-term sustainability of the Endowment is inflation, and the assets should be invested to mitigate this risk over the long term. The trustees understand that this is likely to mean that investment will be concentrated in real assets (and not derivatives) and that the capital value will fluctuate.

The trustees are able to tolerate volatility of the capital value of the Endowment, provided that the total return is maintained. However, it should be noted that the College would not want to see the value of the endowment falling, over the longer term.

(b) Private Placement Debt
St Hugh's College relies on the supporting investment funds producing a consistent level of income sufficient to meet the interest payment liability of £1.28m p.a., and provide sufficient capital growth to repay the capital sum at the end of the loan period.

The key risks to the long-term sustainability of this investment is weak market performance, and the assets should be invested to mitigate these risks over the life of the investment. The trustees understand that this is likely to mean that investments will be concentrated in real assets (not derivatives) and that the capital value may fluctuate. The trustees further understand that protection against adverse market performance is likely to be best achieved by careful stock selection, over the long term. The balance between long and short term assets will be reviewed in light of fundraising achievements. The asset allocation will be reviewed regularly, in particular as the repayment term becomes nearer.

(c) Housing Equity Property
St Hugh's College adopts a capital gain approach to investments in this category, generating investment return from the ultimate sale of the property.

The Housing Equity investment portfolio is invested to directly further the Charity's aims through performing "other things as are incidental or conducive to advancing education, learning or research in Oxford or elsewhere" by enabling Fellows to acquire property in the highly priced Oxford market. The trustees recognise that financial return is subject to fluctuations in the housing market, and can tolerate volatility in the capital value of the properties, as long as they provide Fellows with affordable accommodation. The trustees further recognise that properties held in this element of the portfolio may not maintain their capital value and are illiquid. The risk of these investments will be appraised by the Investment Committee to ensure that it is commensurate with the charitable impact and potential for financial return. The size of each investment is capped at £150,000 or 50% of the value of the individual property, whichever is lower, ensuring that the Foundation spreads its risk exposure, albeit amongst individuals residing in a specific geographical area.

(ii) Assets

(a) Endowment and Private Placement Assets
The Endowment and Private Placement assets can be invested widely according to the general power of investment and should be diversified by asset class, by manager and by security. Asset classes could include cash, bonds, equities, property (directly or indirectly), hedge funds, private equity, commodities and any other asset that is deemed suitable for the Endowment. Asset classes should not include derivative products or "short" selling.

With the aim to preserve the value of the underlying investments, the Endowment assets can be invested actively or passively, on the advice of specialist investment managers who should be selected by the Investment Committee The selection of investment managers should be reviewed at least every five years.

With the aim to maximise the potential for capital growth, the private placement assets should be invested actively, at the advice of specialist investment managers who should be selected by the Investment Committee. The selection of investment manager should be reviewed at least every five years.

The Investment Committee is responsible for identifying and monitoring suitable investment managers and investment vehicles for the Endowment. They are also responsible for agreeing a target strategic asset allocation, in consultation with expert advice if required. Asset allocation may vary from the agreed target periodically, due to market movements. Formal rebalancing of the asset allocation should be undertaken no more frequently than annually.

(b) Housing Equity Property

The shared equity element of the portfolio must be invested in residential property occupied by eligible Fellows of the College. The overall upper limit of total investment in shared equity property shall be decided by the Finance Committee's recommendation to Governing Body and shall be reviewed every 3-5 years. Other types of programme related investment into Fellows' property may be considered by the College, but must be approved by the Governing Body prior to implementation.

(iii) Currency

The base currency of all three elements of the investment portfolio is Sterling.

Investments in the Endowment Funds and Private Equity Funds may be made in non-sterling assets, but should not exceed 40% of the total investment portfolio.

In the Endowment Funds and Private Equity Funds, hedging against currency risk is permitted, at a level to be recommended by investment managers and reviewed from time to time by the Investment Committee.

In the Housing Equity Property element of the portfolio, investment in non-sterling assets is not permitted.

(iv) Credit/Counterparty

The Endowment Fund's and Private Equity Fund's cash balances should be deposited with institutions with a minimum rating of A-, or invested in a diversified money market fund.

Bond exposure should be focused on investment grade issuers.

(v) Other

(a) Valuation

The Investment Committee will expect to receive valuation reports from the Fund Managers of the Endowment Fund and Private Placement Debt Fund no less frequently than quarterly. Fund Managers should be invited to present to the Investment Committee no less frequently than once per year.

The Housing Equity Properties will be required to be valued annually.

(b) Passive vs Active Investment

In its Investment Review of 2020, the Investment Committee recommended to Governing Body, and Governing Body accepted, that the endowment funds could be passively or actively invested. With the underlying aim to preserve the value of the College's charitable funds.

The Private Placement debt funds, however, are actively invested in order to maximise its potential for growth and income.

4. Liquidity Requirements

The College requires to take an annual drawdown of 3.77% from the endowment funds' total return, calculated on the average of the values as at 31 December in each of the last five years. This drawdown is reviewed on an annual basis by the Investment Committee, and to be pegged at or around the average of Oxford colleges' endowment drawdown.

The College requires the private placement debt funds to generate sufficient income to cover its own interest payments. Any income generated over and above the interest requirements may be paid out to the College's budget to be used as working capital, or may be reinvested to contribute to capital growth.

It may be that the College requires access to up to £20m of the private placement capital, in order to fund extraordinary capital projects, with an extraordinary capital project defined as a building project in excess of £10m. No more than £20m of capital may be withdrawn from the private placement funds without Governing Body approving a credible short term plan to replace the capital withdrawn in excess of £20m.

5. Ethical Investment

The College's ethical investment policy precludes direct or indirect investment in companies that generate more than 10% of revenues from alcohol, tobacco, armaments or gambling. Further, the Investment Committee aspires to invest only in those energy companies prepared to consider an environmentally sustainable method of generating energy.

The College's assets are invested in investment vehicles run by professional asset management companies. The College Investment Committee monitors these investments and has committed to review these managers periodically.

The College's largest single allocation is to Sarasin & Partners in their Climate Active Fund. This is an active investment fund and, as the name suggests, puts consideration of Environmental, Social and Governance (ESG) impacts at the heart of the asset allocation decisions. This covers areas of climate, but also issues such as the diversity of their board structure.

This investment strategy includes an approach of leveraging influence to "support directors at investee companies materially exposed to climate risks to position their businesses for a net-zero emission". The tools involve:

- Proactive engagement to ensure the business' strategy is aligned with a realistic approach toward achieving responsible climate and social positions.

- Voting. This includes blocking the appointment of directors where individuals are impeding the adoption or implementation of a Paris-Accord-aligned strategy, and the voting against auditors if material climate risks are not disclosed.
- Divestment where leadership is failing to respond appropriately.

The College will continue to engage with its Fellows, Students and other College stakeholders to ensure that its investment strategy is suitable to achieve the College's goals and, where necessary, the College will adjust its assets and strategy during its regular Investment Reviews.

6. Time Horizon

The Endowment is expected to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.

The Endowment can adopt a long-term investment time horizon.

The Private Placement Debt will exist until 2061 and 2066, after which the capital element of the loan will be repaid, and any surplus capital growth will be transferred into the endowment portfolio.

7. Management, Reporting and Monitoring

The Investment Committee select investment managers and vehicles to implement the agreed asset allocation strategy. Managers are required to produce a valuation and performance report quarterly. The College has nominated a list of authorised signatories, two of whom are required to sign instructions to the investment manager.

The Investment Committee have responsibility for agreeing strategy, selecting managers and monitoring the investment assets. The Committee meets termly to review the portfolio, including an analysis of risk, return and asset allocation. Performance will be monitored against agreed market indices, and at an overall level against a composite benchmark. The Endowment Funds have a specific investment objective of inflation plus 3.77% drawdown plus fees over the long term.

The Investment Committee is to report formally to the full Governing Body after each of its meetings. One of these reports in each year should include a review of asset allocation strategy, performance, risk profile and consistency with the long term investment objective.

8. Approval and Review

This Investment Policy Statement was prepared by the Bursar to provide a framework for the management of St Hugh's College's investment assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Approved by the Investment Committee

Dated: 14 May 2019
Revised Version, to include Section 5 Ethical Investment, Dated 12 May 2020
Revised Version (v3), to include actively-managed investment in 3vb, and general updates, Dated 2 February 2021

Approved by Governing Body

Dated: 19 June 2019
Revised Version, to include Section 5 Ethical Investment, Dated 20 May 2020
Revised Version (v3), to include actively-managed investment in 3vb, and general updates, Dated 10 March 2021