HERTFORD COLLEGE

STATEMENT OF INVESTMENT PRINCIPLES
1st August 2019

(1) The purpose of the endowment is to generate income to support the College's charitable educational aims. The College's aims are identified in its Statutes and Statement of Purpose.

(2) The College seeks to manage its endowment to improve the educational experience of its current and future students and to pursue excellence in scholarship by means of teaching and research and the provision of the cultural and social context which supports this. It aims to ensure that the College is accessible to students on academic merit regardless of financial circumstances or background.

(3) The College's invested endowment is invested in:

  a. Securities including equities and fixed interest stocks (e.g. bonds),
  b. Cash deposits
  c. Property

(4) The endowment is invested to produce the optimal sustainable return, given the College's low risk tolerance. The ratio of the three year rolling average value of the endowment should be at least five times the three year rolling average annual expenditure of the College. The College's target for the next five years for investment income from the endowment and reserves shall be reviewed annually. The current target is shown as Figure 1 of Annex A.

(5) The College's tolerance of risk to the value of the capital of the endowment is low, but it also aims to preserve the real value of the current endowment against the threat of inflation over the long term, to treat equitably the current and future generations of students.

(6) In investing the endowment, the College will set a principal target of the Total Return (i.e. income and capital growth) on a five year rolling average basis as measured on 30th July. This target is shown in Figure Two of Annex A.

(7) The College will invest in UK Government stocks, investment and unit trusts, including property unit trusts, corporate and other bonds. Where possible, investment policy should prefer investments in vehicles which track major

indices. The College expects that its portfolio to be relatively stable, with as little churn of its holdings as is necessary to achieve its investment objectives.

(8) The College will not normally invest directly in land or vehicles such as hedge funds and venture capital funds. In order to reduce management fees, direct investment in equities may be made, with the equities limited to 'blue chip' UK companies in the FTSE 350 and where the spread of such investments ensures that the risk from any individual company to the overall portfolio performance is small. Direct equity investments should not exceed one quarter of the total UK equity holding.

(9) The College is mindful of its responsibilities to invest wisely 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

(10) 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, and the current figures are shown in Figure Three of Annex A.

Performance in each sector will be monitored against the specified Benchmark Index on a rolling and annualized 1 year, 3 year and 5 year basis, as shown in Figure Four of Annex A.

(11) Risk limitations and portfolio constraints

- The sector portfolios should be invested in such a manner as to limit the deviation from the designated benchmark index for the asset class within the range of –3% to +5%.

- No individual holding (excluding pooled funds or UK government bonds) should exceed 15% of total portfolio value.

- Within each category of investment, no individual holding should exceed 70% of total value of investments in that category.

- The credit rating for bond investments held individually should be at least BBB.

- Holdings will normally be in Sterling to minimise exchange rate risks.

(12) The College will maintain sufficient short term cash deposits to cover normal seasonal ebbs and flows within the overall cash holding discussed above

(13) The College will appoint a professional advisor to provide investment advice who is qualified to provide such advice under the provisions of the Financial Services and Markets Act (FMSA) 2000.

This statement will be reviewed regularly by the Investment Committee and submitted to the Governing Body for approval when changes are deemed necessary.

Annex A

Figure One: Target for Gross Income for the 1August 2019 to 31 July 2020 financial year from the Investments managed by Rathbones.

	Target
Income draw set at 3.5% of the 5-year rolling average value measured on 30th July	~£2,000k

Figure Two: Target for three year rolling Total Return

	Target
Net target for a five year rolling average basis is for the Total Return (i.e. income and capital growth) as measured on 30th July	Five year UK gilt yield plus 6% over the period

Figure Three: Targets and Permitted Ranges of Asset Allocation

Category	Permitted Range %	Benchmark Index
UK bonds	20-40%	FTA Government All Stocks
UK Equities	25-45%	FTSE All Share
Overseas Equities	10-35%	FTSE All-World (ex UK)
Property trusts	0-10%	-
Private equity	0-5%	-
UK Cash	0-10%	LIBOR
Total		

Figure Four: Investment Manager Performance Benchmark

The Fund will be expected to generate a total return on non-cash investments after costs that is higher than a composite index over a rolling three year period by the following margin:	0.5% p.a
The composite will consist of the returns of the following:	
FTSE Actuaries Government Securities UK Gilts All Stocks Index	40%
FTSE All-Share index (FTSE code ASX)	40%
FTSE All-World ex UK (FTSE code AW03)	20%