



Investment Policy

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HERIOT-WATT UNIVERSITY INVESTMENT POLICY

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INTRODUCTION

The University regularly receives endowments and donations for specified or unspecified purposes. These monies are designated under Named Accounts with the primary overall objective of meeting one or all of the following purposes:

- supporting educational activities
- providing student support (e.g. Scholarships, Bursaries, Prizes)
- providing staff support (Endowed Chairs, Research Funding)
- funding new Projects (i.e. building and/or equipment related)

The monies are then invested under strict conditions to meet and support the disbursement needs of the University's three main internal Funds:

- the Scholarship & Bursary Fund
- the Alumni Fund
- the Annual Fund

At all times the monies held in the designated Accounts 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).

The Investment Policy has been updated from the 2019 version, and was approved by the Court on 24 June 2024. It now clarifies the University's stance on its financial and non-financial objectives, particularly in relation to sustainable investments. The update is particularly important in light of the sustainable ambitions within the Court approved Climate Action Framework¹ and the Environmental, Social and Governance (ESG) commitments of the University. The Investment Policy, along with other documents in the University's suite of ethical business policies and procedures, will be further developed and reviewed by the Court during 2024/25.

PURPOSE

The overall objective of the investments in this policy is to ensure that the University will continue to meet both short, medium and longer-term educational activities in line with the original intentions of the donors, whilst also complying with the University investment policy. The investment strategy is aligned to support this financial objective and integrates sustainable investments in line with the University's values and commitments to ESG standards. A particular requirement is to protect Named Accounts in which donations were made with the requirement to deliver the specified objectives(s) in perpetuity.

SCOPE

The scope of this policy covers internal funds invested on the University's own behalf, plus monies received for specific purposes e.g. endowments and other donations. Invested monies are referred to as foundations and donations in this policy, but for completeness, the scope of this policy includes foundations, donations, gifts, cash at bank, investment returns, and any interest received.

Bank funds held by the University for day-to-day operational working capital purposes are not within the scope of this Policy. All other funds held at bank, including those held to support longer-term capital planning and repayment of debt, would be considered as within scope for the purposes of this Policy.

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 instrument vehicles.

Foundations and donations are categorised as one of the following:

Unrestricted – do not have to be invested in a specific way and is not tied to any specific purpose. These monies may be used for the general benefit of the University.

Restricted – may have to be invested in a specific way but must be used strictly in accordance with the terms provided by the donor. The terms agreed with the donor will result in a restriction that is more specific than the general benefit of the University. This category includes donations or gifts made for capital projects.

The Court must carry out its powers of investment in line with the Terms of Reference of the University's Donation and Investment 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 also carry out its powers of investment in line with all relevant policies.

TIME HORIZON

The investment time horizon can vary depending on the categorisation of the donation, e.g. donations that include permanent endowments, and have a requirement to maintain the capital in perpetuity are considered longer-term investments, whereas donations that allow expenditure of capital over a more shorter timescale are regarded as short to medium-term investments.

INVESTMENT OBJECTIVES

The University has defined below a number of investment objectives, both financial and non-financial, in relation to its investments:

1. **Returns** – The ability of the University to deliver on its objectives are subject to new contributions received together with returns or interest from its investments. The University therefore will delegate the day-to-day management of the investable assets with an appropriate investment manager(s). The returns delivered by the manager will be assessed against agreed investment objectives and benchmarks returns aligned to meet the overall objectives of the university. Returns will be assessed over a one, three and five-year time period and will exclude manager charges and fees.
2. **Growth** - The University will annually set out the monies required to meet its objectives for coming year in its annual budget. The sum required to meet these objectives will come from a combination of new donations and investment growth and/or interest received. Growth is measured net of inflation and manager charges. Growth should support the portfolio's real (inflation adjusted) purchasing power after management expenses and spending.
3. **Risk** - The University is able to tolerate volatility of the capital value of its investments as long as current expenditure can be met from investments and occasional drawdowns of capital may be made to meet the needs of individual expendable

endowment funds. The University will apply the following principles to managing the risk within its investments:

- a. Sustainability - Ensuring the assets are invested in line with the University's values and commitments to Environmental, Social and Governance standards.
- b. Concentration risk - Risks related to the diversity of the Portfolios ensuring that investments are sufficiently diversified to spread risk
- c. Ethical concerns - Ensuring that investments meet the University's reputational risk appetite including meeting ethical requirements as set out elsewhere in this Policy and other published statements, and in its Vision, Mission, and Values;
- d. Fund Management – Ensuring the University's funds are managed by fund managers who will act as appropriate stewards of the University's investments and ensure that the University's funds are invested according to its investment and risk objectives; and
- e. Income/Growth risks - Ensuring the Portfolios are invested according to the University's income and growth objectives noted in this policy and elsewhere whilst balancing against other financial and non-financial risks.

The investment risk objectives will also align with the overall Risk Appetite Statement of the University. The University understands that this is likely to mean that due to the nature of the investments, the capital value will fluctuate.

4. **Non-financial considerations** - The University will ensure that funds invested are consistent with this Policy and other relevant policies and public statements, including, for example, on environmental sustainability and a Just Transition. We will encourage our fund manager (s) to actively steward our portfolios and take positions, such as participating in significant votes, consistent with the University's Vision, Mission and Values, including specifically its position in relation to sustainability and environmental matters. The University will define other non-financial objectives for the assets and agree suitable Key Performance Indicators (KPIs) with fund managers to allow these to be reported and monitored.
5. **Endowments** - The primary financial objectives of the endowment assets are to provide sustainable funding for education purposes and grant-making activity of the University.
6. **Liquidity / Contingency** - For expendable endowments and donations, the assets where expressly permitted may have the secondary objective of serving as contingency funding. These assets may be drawn upon in the event of an unanticipated shortfall due to insufficient growth, other funding needs, or of an urgent request due to an unplanned expenditure. This means that some assets may need to be liquidated at short notice. However, it does not require that capital volatility be limited to an extent which would compromise the primary financial growth objective.

The University will review and communicate these investment objectives at least annually, or whenever they have been updated, to the University's fund managers whose role is to manage the University's internal funds on its behalf to the objectives set. The University will continue to monitor the portfolio of investments via reports provided by the fund managers to confirm that investment objectives continue to be met, and to take action where they are not.

SUSTAINABLE INVESTMENTS

It is the University's policy to avoid investment in companies with revenue arising from:

- tobacco;
- cluster munitions;
- landmines;
- fossil fuels;
- companies in violation of international law;
- organisations or countries subject to UN or other applicable government sanctions;
- gambling;
- pornography; or
- payday lenders and other similar high cost credit providers lending, including those which persistently fail to meet internationally recognised Environmental, Social or Governance standards.

Statements regarding sustainable investment in this policy should be construed to reflect the meaning of similar statements or policies approved by the University.

The University has developed and published a Climate Action Framework, setting out the approach to achieving the 10 institutional commitments to Climate Change outlined in the University's Global Environmental Sustainability Strategy (GESS) which aligns with the 2015 Paris Agreement and related UN Sustainable Development Goals (UN SDG).

In setting its investment strategy, the University will integrate where possible its investments in line with the University's GESS, and therefore by extension with the 2015 Paris Agreement, within timeframes agreed by Court.

At the time of approval of this Policy (June 2024), the University holds no investments in the oil and gas sector. The University engages with the oil and gas sector across its activities in support of climate transition and ambitions related to net zero CO₂e emissions.

In the interests of transparency the University will publish, at least annually, a list of investments held.

Where the need for specific Sharia-compliant investments are required, the University would establish specific compliant assets for that purpose.

GOVERNANCE

Responsibility for these investments, held by the University, lies with the Court (on which there is student representation through the Student Union President), and staff representation via elected staff representatives.

There are clear ongoing opportunities for the wider student body and staff community to engage with the policy via this representation. The members of the Court are the Trustees for these assets and have delegated authority for their oversight – their stewardship and application - to the Donations and Investment Committee which is required to report regularly to the Court. This includes regularly monitoring the general and financial management of the University's investments, managing their legal aspects, ensuring relevant reporting to and interaction with the OSCR and any associated compliance.

The Donations and Investment Committee will also oversee the regular monitoring and assessment of the risks and performance of any invested parts of the assets to fulfil objectives. The Donations and Investment Committee will employ the services of a qualified investment manager to implement the investment policy, including integration of sustainable objectives.

The Donations and Investment Committee is also responsible for overseeing fundraising activities, especially those undertaken by the Development and Alumni Office. The

Donations and Investment Committee must consider the University's sustainable policies and any guidance received from the Governance and Nominations Committee or the Court.

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

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

INVESTMENT MANAGEMENT

Selected fund manager(s) must have a minimum of five years' proven track record, be financially secure and have experience of management of similar customers and a proven track record of managing similar sustainably invested portfolios, of the scale required for the University's assets. 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 managers' investments.

The fund manager(s) must have charges and 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(s), or any other of their agents, are aware of the relevant University policies and have the expertise and capacity to implement them.

The University would expect to receive value-added benefits from its fund manager(s) 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(s).

The University's fund manager(s) should be subject to periodic review to ensure that this investment policy, including its sustainable requirements, are being adhered to, and that the service provider represents the best value for money for the University. To meet these requirements, any contract appointing a fund manager shall be for no longer than five years, with the ability to terminate the contract immediately or within agreed timescale as deemed necessary.

If it becomes apparent that a 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 Donations and Investment Committee on an annual basis or more frequently, should need arise.

Amendments to the Portfolio

Amendments that are required to the 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 investments in entities which do not comply with the sustainable 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 investments in an entity which falls outside of the sustainable 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 an alternative compliant investment vehicle.

Funding and Investment targets

Funding target: the Donations and Investment committee may set and review from time-to-time funding targets, consistent with the University Objectives.

Investment targets: the Donations and Investment committee will set and revise from time-to-time targets for average annual return (%pa) in order to meet the University objectives.

The University recognises that this investment target that can only be assessed fully over the course of an investment cycle of several years. Over shorter time periods, performance will be measured against market index benchmarks and peer group portfolio comparators.

The University values an attractive regular investment income stream which is fairly consistent from year to year, and which can be expected to be invested for growth over time to maintain its real spending power. However, the 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.

RELATED POLICIES, PROCEDURES AND FURTHER REFERENCES

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

FURTHER HELP AND ADVICE

Further help and advice can be sought from the Global Chief Financial Officer.

POLICY VERSION AND HISTORY

This Policy replaces the *Investment Policy* approved by the Court on 29 March 2019.