



# Endowments Investment and Management Policy

## 1. INTRODUCTION

Heriot-Watt University has around £5.5m of endowment funds (as of February 2009), comprising a range of donations received for various purposes over many years. In general the endowment objectives are to support educational activities, providing: student support (in the form of Scholarship, Bursaries and Prizes); staff support (e.g. endowed Chairs, research funding); and funding for new strategic projects (e.g. towards new buildings, equipment, etc). These funds 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 overall objective of this investment policy is to ensure that the University will continue to be able to meet the endowment objectives into the future, in line with the original intentions of the donors. A particular requirement is to protect those endowments in which donations were made with the requirement to set up a permanent fund, able to deliver the specified objectives(s) for perpetuity.

Given this requirement this investment policy aims to balance a low-to-medium level of capital risk with the need to generate income, both for current purposes and into the future.

## 2. SUMMARY OF INVESTMENT POLICY

In order to provide a framework for its investment activities, the principal objectives of the investment policy shall be deemed to be:

1. To maintain, at a minimum, over the medium term (defined as five years, unless otherwise stipulated by the Endowment Committee), the real value of all permanent endowments as income generating assets;
2. To produce a consistent and sustainable income return from the aggregate of all permanent endowments to support an annual expenditure plan;
3. To maximise, through a suitable combination of investment and income generation, the financial benefit obtained from all expendable endowments over the period that they remain current;

4. To manage the investment assets, in which the endowments are invested, within a balanced portfolio, subject to a low-to-medium degree of risk. (“Low-to-Medium risk” being a widely recognised term, the preference in this instance being for investments nearer the lower end of overall risk classification. “Balanced” referring to a suitable mix of income generation and capital growth.);
5. To include no specific investment restrictions or limitations on the portfolio;
6. To benchmark the performance of the investments against recognised indices [e.g. APCIMS Balanced Index]

The investment policy and performance will be assessed at least annually by the Endowments Committee to ensure, so far as possible, that the returns continue to support the endowment objectives and that the investment performance is optimal.

### 3. MANAGEMENT OF INVESTMENTS

Responsibility for the University’s endowments lies with its governing body – the Court. The Endowment Committee (a Committee of Court) is charged with oversight of the endowments – their stewardship and application – and is required to report regularly to the full Court. A regular report will also be supplied to the Finance Committee for comment.

In this context, the management of the endowment funds is as follows:

1. The general implementation of this policy is overseen by the Endowments Committee. Any changes to this policy or major (i.e. non-routine) decisions concerning the management or dispersal of funds require the approval of Court.
2. Day to day management responsibility lies with the University’s Finance Office, which will support the Endowment Committee through the provision of appropriate management accounts, other reports and advice. This responsibility is that of the Director of Finance and under the day to day direction of the Group Financial Controller.
3. The Endowments Committee will normally employ the services of a properly qualified investment advisor to advise on and execute the investment policy.
4. The Group Financial Controller is required to maintain a close working relationship with the University’s professional investment advisors, etc – involving the Chair of the Endowment Committee on a regular basis.
5. The Endowment Committee will review the performance of the investment advisor and the terms of their engagement at least annually.
6. The University’s Development and Alumni Office (DAO) is responsible for maintaining records of all donations, including the terms and conditions of all endowments held, working in conjunction with the Finance Office, as appropriate. The Office will submit six-monthly reports to each Endowment Committee meeting, setting out the expenditure in each period and demonstrating alignment with the endowment objectives.
7. Alongside the reports from the DAO, six-monthly statements will be prepared under the direction of the Director of Finance and submitted to the Endowments Committee. These will set out the overall movements in endowment funds,

including detailed reconciliation to the receipts and uses of funds managed by the Development and Alumni Office.

8. The University's internal auditors will review the controls applicable to endowment funds and report on the effectiveness of their operation to the Endowment and Audit Committees on a regular basis in accordance with the triannual internal audit plan approved by the Audit Committee.

#### 4. CAPITAL MAINTENANCE AND EXPENDITURE

Within the balanced portfolio, the major objective is to maintain the value of the permanent endowments at a level such as to retain their capacity to earn income sufficient to deliver their defined objects (within the defined level of risk). It is the responsibility of the Endowment Committee to judge whether this objective is being achieved and to take corrective action where necessary and possible.

Where, in the judgement of the Endowment Committee, this objective is being achieved, income earned over the previous 12 months can be disbursed, according to the terms of the individual endowments. Income will not be disbursed until it is earned and the funds made available in the bank account.

In the event that this objective is not being achieved, in the case of the permanent endowments, the Committee has the authority to impose a moratorium on expenditure to re-establish the appropriate capital base.

Where significant additional growth in the permanent endowments has been achieved, use of this additional capital growth for annual further expenditure purposes is only permitted on the basis that the future income-earning capacity of the original endowment funds value is not eroded.

The investment policy and the use of endowment funds will also take full account of those endowment funds provided for full amortisation over a stated period or in pursuit of a stated objective.

#### 5. INVESTMENT RELATIONSHIPS & INVESTMENT FUND OPERATION

Fund managers and investment advisors will be appointed on the basis of experience and past record, with the requirement that that they be financially secure and capable of servicing the University's requirements at reasonable cost. This choice will be handled by the Endowment Committee.

**Opening and closing investment funds:** The establishment of new investment relationships, the opening of new investment funds, or their closing, requires the approval of the Endowment Committee. Where urgent action is required, approval will be sought by the Chair of the Committee by correspondence.

**Legal process and documentation:**

**Financial:** All documentation pertaining to financial agreements must be processed by the Finance Office.

**Non-Financial:** All documentation pertaining to other aspects of the endowments (e.g. agreements with donors, specification of terms and conditions, etc.) will be processed by the Development and Alumni Office.

As necessary, the University lawyers will be consulted to provide assistance on documentation. Where issues arise they will be brought to the attention of the Chair of the Endowment Committee who will consult the full Committee if necessary.

**Use of cash:** The Finance Office will ensure that the University's Treasury Policy is adhered to when managing any liquid funds forming a part of the University's endowments. Any such liquid funds will be maintained fully within the Endowment Funds management procedures described in this memorandum and will not be combined with general University liquid funds in any way, nor used as security or utilised for any capital or interest offset arrangements.

**Payment Authority:** All payment instructions, including cheques, must be signed in accordance with the recognised University mandates. The investment fund mandate(s) includes the following signatories: Chairman of Court, Principal, Vice Principal, Secretary of the University and the Director of Finance. All payment instructions must be signed by two signatories.

**Costs:** The costs of managing the endowment funds – their investment, disbursement, accounting, reporting – will be monitored by the Finance Office and will be reported annually to the Endowment Committee.

## 6. REPORTING REQUIREMENTS

The Finance Office (working with the Development and Alumni Office and the Committee Chair) will provide information to the Endowment Committee including the following:

- Quarterly summary of investment performance – capital growth and income;
- Projections for current year and future annual income generation and expenditure;
- Recommendations for changes to capital maintenance assumptions;
- Recommendations for changes to expenditure assumptions
- Recommendations for changes to investment funds and/or investment managers and other professional advisors.