Endowment Investment Policy

Summary

The University of Bristol's Endowment Investment Policy governs the management of endowment funds, aiming to generate income and grow the value of the funds over time. The policy requires ethical investment practices, prioritising investments that align with social, environmental, and governance goals.

Control information:	Control detail:
Owner	Group Finance Director, Finance Services
Author	Head of Treasury, Finance Services
Sponsor	Chief Financial Officer, Senior Team
Consulted	Finance & Investment Committee
Approved by	Board of Trustees
Responsible area	Finance Services
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Related information	Bristol University Endowment Fund Management

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1. Updates to this policy

1.1 The objectives have been amended to take account of the change to a total return approach to endowment accounting.

1.2 The definition of weapons as an activity which may lead to exclusion has been clarified to specific types of controversial weapons.

1.3 The de minimis threshold has been restated to apply in respect of each separate excluded activity rather than in aggregate. A new definition has been included so as to enable the application of different de minimis limits against different activities.

1.4 The policy has been clarified as to how positive ESG characteristics are to be considered in the investment appraisal process.

1.5 A new section has been included on the expectations regarding monitoring and stewardship.

2. Introduction

2.1. The University of Bristol Acts 1960 and 1974 provide for the pooling of the investment of funds and the creation of a Trustee Securities Pool and a General Pool. The value of each pool is divided into investment units. The income of the pools is apportioned among the various endowment and other funds in proportion to the numbers of unit to which each fund is entitled.

2.2. The assets held by the University's endowment funds should be split into an investment portfolio, in order to generate income and capital growth, and cash deposits held within the University's general bank accounts, to maintain liquidity.

3. Scope

3.1. This policy covers all activities relating to the University's endowment funds, including investment decisions, ethical standards, fund management, and reporting. It is binding on University staff involved in investments or fund management, governance bodies, and external fund managers or advisors.

4. Definitions

4.1. **Controversial Weapons**: cluster munitions, anti-personnel land mines, biological or chemical weapons, or any weapons which are illegal under international law.

4.2. **De Minimis**: A defined proportion of the total revenue of an entity that is derived from a specific activity, below which proportion the entity is not to be regarded as active in that industry for the purposes of determining whether it is an Excluded Entity. The proportion is set with respect to each activity as follows:

- 0% of revenue (in the case of Controversial Weapons). The endowment will not invest in companies with any exposure to Controversial Weapons.
- 5% of revenue (in the case of pornographic or sexually exploitative material)
- 10% of revenue (in the case of any other activity).

4.3. **Endowment**: A fund made up of donated capital, which is invested to generate income. The income supports University activities, such as scholarships or research, according to each endowment fund's specific terms.

4.4. **Environmental, Social and Governance (ESG):** Factors which relate to an entity's practices concerning environmental stewardship and impact, social responsibility, and corporate governance.

4.5. **Excluded entities:** Subject to the applicable De Minimis threshold, entities which are active in any of the following industries:

a. The manufacture or sale of tobacco products

b. The production or sale of pornographic or sexually exploitative material

c. The production, distribution, sale, housing/stockpiling and/or transport of Controversial Weapons

d. The exploration, extraction, or refinement of fossil fuels.

e. The operation of betting or gambling operations

f. Direct involvement in human rights abuses, as may be determined by an internationally recognised body (including, without limitation, the United Nations), or which have explicit links to such entities.

4.6. **Expendable endowment**: A type of endowment where both the income and the capital may be spent according to the terms set by the donor or the governing body of the University.

4.7. **Permanent endowment**: A type of endowment where only the income may be spent; the capital must be preserved in order to generate income.

4.8. **Positive ESG criteria:** Corporate behaviour which promotes any of the following:

a. Mitigation of the causes or effects of climate change.

b. Human rights, as protected by the Universal Declaration of Human Rights and other internationally recognised conventions.

c. Corporate social responsibility and business ethics.

4.9. **Risk Appetite**: The University's Risk Appetite is assessed as moderate. This means an investment strategy which accepts some risk to capital but adopts a balanced approach with time scales of typically over 5 years. A moderate investment strategy is likely to include dividend-paying equities.

5. Responsibilities

5.1. **Development Office** are responsible for negotiating gift agreements of endowments with potential donors (or, where the donor is deceased, with executors or legal representatives), and for drawing up gift agreements which encapsulate the specific conditions in a practical way.

5.2. **Fund Managers** are appointed by the University to manage the endowment fund investments in line with the approved University policy.

5.3. **Governance bodies** are responsible for setting the strategic direction of the endowments, for setting investment targets, and ensuring that the endowment management is consistent with the fiduciary duties of the University trustees. Responsibility for endowment policy is reserved to the full Board, on the recommendation of the Finance and Investments Committee.

5.4. **Procurement** oversees the appointment of external fund managers or service providers in line with procurement regulations and business requirements.

5.5. **Treasury** manages the day-to-day operations of the endowment. This includes making decisions about investments and the monitoring and reporting of the performance of the investments. The Treasury team also advise on the use of endowments in line with the specific terms and conditions which apply to each fund.

6. Expendable and Permanent Endowments

6.1. Expendable and Permanent endowments shall be treated for accounting and practical purposes in accordance with Charity law, the Higher Education SORP, and the University of Bristol Acts 1960 and 1974.

7. Investment management

7.1. The University's endowment investments are held to generate a return to fund charitable activities, as defined in the terms of the respective endowments.

7.2. The Finance and Investment Committee shall annually recommend a target for the distribution from the investments, which shall be communicated to the University's Fund Managers

7.3. The amount of cash held by the University's endowment should be reviewed annually by the trustees. The level of cash held within the endowment should be sufficient to cover six months' worth of expenditure incurred by the endowment funds.

7.4. Endowment investment decisions should aim to optimise the total return of the endowment investments within the context of the University's Risk Appetite.

7.5. To minimise risk to an acceptable level, any endowment funds should be invested in a diversified portfolio which does not have excessive exposure to any specific sector or industry.

7.6. Notwithstanding the performance objectives, the investment of the University's endowments also take into account ethical criteria that align with the University's ethos and purpose.

8. Ethical investment criteria

8.1. The Finance and Investment Committee may from time to time recommend that certain industries or activities should be excluded from consideration for investment by endowment funds, for the following reasons:

a. Where, because of its inherent unsustainability, the activity or industry poses a long-term financial risk.

b. Where an activity or industry is fundamentally inconsistent with the charitable aims of the University.

8.2. The activities in question are set out in the definition of Excluded Entities .

8.3. The University, or its agents, will not invest endowment funds, whether directly or indirectly, in Excluded Entities.

8.4. When making endowment investment decisions, the University or its agents will consider the Positive ESG Criteria in its investment appraisal process. Investment managers will be expected to demonstrate how positive ESG characteristics have been incorporated into their assessment and decision-making, where relevant

9. Stewardship and ESG reporting

9.1. The University Fund Manager is expected to monitor for material risks that could potentially affect compliance with the ESG requirements of this policy. The Fund Manager should take account of such risks when evaluating investments and constructing portfolios.

9.2. The University Fund Manager, as an owner of investments, should use any power it may have to engage with investee entities, including the power to vote on board or other resolutions, in such a way as to promote alignment with the ESG requirements of this policy. The Fund Manager will monitor the outcomes to ensure that objectives are being implemented in practice.

9.3. Where an investment is identified as being non-compliant, or potentially non-compliant, with the ethical requirements of this policy, the University Fund Manager will employ a grace period before divesting. The length of the grace period will depend on the nature of the entity (for example, whether it is a public or

private entity), but should be sufficient to allow for an appropriate level of engagement. Where divestment is considered necessary, the financial consequences should be evaluated and the divestment timed so as to minimise any negative impact.

9.4. The University Fund Manager will report to the University Finance and Investment Committee, on an annual basis, how the requirements of this section of the policy have been reflected in the Fund Manager's investment decisions, stewardship activity, engagement programmes, and (where appropriate) divestment decisions.

10. Fund manager

10.1. Fund Managers are appointed according to the applicable process set out in the University procurement policy.

10.2. The University shall ensure that its Fund Managers, or any other of its agents, are aware of the Endowment Investment Policy, including its ethical requirements, and have the expertise and capacity to implement it.

10.3. Any Fund Manager appointed to manage endowment investments is subject to periodic review to ensure that this investment policy, including its ethical requirements, is being adhered to, and that the service provider represents the best value for money for the University.

11. Monitoring and review

11.1. The endowment policy and a summary of endowment investment assets shall be available on the University website, and updated quarterly.

11.2. The policy shall be subject to triennial review by the Finance and Investment Committee and may be amended at their discretion at any time. Amendments to the policy will be approved after consultation with students and staff or their representatives.

11.3. Student and staff representatives, subject to confidentiality requirements, shall be able, by arrangement with the University, to review internal reports concerning the investment portfolio.

12. Policy implementation

12.1. This policy shall be binding on any staff of the University of Bristol, or their agents who make investment related decisions on behalf of the University.