Statement of Investment Principles

1.1 Introduction

This is the Statement of Investment Principles made by the University of Edinburgh Endowment and Investment Fund (“the Fund”).

This Statement has been prepared by the University Court (“the Court”) in consultation with the Investment Committee (“the IC” see below).

1.2 Governance Structure

The Statement of Investment Principles is agreed by the Court. Implementation of the Principles is delegated to the IC, whose remit is set out below:

1.2.1 Propose and agree with the Court investment objectives and to recommend through the Policy and Resources Committee an investment strategy appropriate to meet these objectives.

1.2.2 Keep the investment strategy under review.

1.2.3 Act in the interests of the University.

1.2.4 Act with care and diligence.

1.2.5 Appoint *investment and fund managers or equivalent*, agree their remuneration and monitor their performance against agreed benchmarks or performance targets and taking action as appropriate.

1.2.6 Ensure funds are appropriately held by a custodian as required, where possible.

1.2.7 Consider the need to diversify investments and consider overall portfolio risk balance and liquidity.

1.2.8 Follow guidance from the Court, Central Management Group and Policy & Resources Committee to implement any policy objectives and restrictions on investments.

1.2.9 Instruct advisors to ensure all funds held in trust by the Fund are operated within the relevant legislation and the specific terms of each trust.

1.2.10 Inform the Policy and Resources Committee of the future income projections from endowment investments.

1.2.11 Advise on potential investments to be made from University resources as well as endowed funds as requested, normally through the Treasury Management function; such investments may include Sustainable opportunities and may include investments that make a positive contribution to the environment and deliver both financial and non-financial benefits.

1.3 Fund Objective

The primary objective of the Fund is to grow the value of the Fund and maintain the capital in real terms over the long term whilst providing an annual income yield to support the activities of the numerous endowments. Specifically, the Fund is targeting a return of 4% per annum, net of fees, in excess of Consumer Prices Inflation overall from its portfolio of investments (after taking into account restrictions or directions on investments made by the University Court).

The University may, from time to time, transfer University cash balances into the Endowment and Investment fund to be managed alongside endowed funds. This transfer will relate to treasury funds which are not immediately required for working capital or contingency purposes, and will be effected for the purposes of making the balances work harder (i.e. return higher yield than is available through bank term and fixed deposits). Inclusion of such General Fund balances will not change the strategy or purpose of the Endowment and Investment fund as defined in the Terms of Reference for the IC.

The Fund may also contain an allocation to investments and projects that have a link to the University, such as venture capital funds which aim to produce strong returns as well as assist the University in developing their Intellectual Property. See also 1.4.6 below.

1.4 Investment Strategy

1.4.1 Strategic Benchmark – The Edinburgh Model

The University has delegated responsibility to set the Fund's strategic benchmark to the IC. The IC has adopted a bespoke model benchmark for the asset allocation, "The Edinburgh Model", which aims to use the long term nature of the Fund to improve the risk adjusted returns achieved.

The Edinburgh Model has been developed for the Fund using advice provided by their Investment Consultants. All day to day investment decisions outside any direct investments such as property have been delegated to authorised investment managers. The strategic benchmark reflects the choice and mix of funds in which the Fund invests. The Edinburgh Model is consistent with the IC's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The University monitors fund performance relative to the Edinburgh Model. It is intended that the investment strategy will be reviewed at least every three years. In considering the investment strategy, the IC will seek advice as required.

Where possible, the managers appointed are expected to run their portfolios with reference to the University's Responsible Investment policy as outlined in section 1.6.

The Edinburgh Model Asset Class	Target Allocation	Range	Typical underlying investments/styles
Global Equities	50%	+/- 20%	Core Active, Core Passive and Sustainable
Property	20%	+/- 10%	Institutional property investments
Global Fixed Income	10%	0% - 40%	Focus on higher returning elements of the bond universe
Opportunistic and Alternative Investments	10%	0% - 20%	Private Debt, Sustainable private market funds, Multi-strategy and Long term off public market investments
University-related investments	10%	0% - 15%	Venture Capital and property
Total	**100%**		

1.4.2 University-related Investments

The Edinburgh Model includes an allocation of up to 10% to investments that have a link to the University in some way. This may include venture capital investments designed to help commercialise the University's Intellectual Property. This could also include property and other University-related assets. Investments in this area could be generated from the University Court (through the Policy and Resources Committee), and although investment returns will be important, they will not be the only focus of these investments.

1.4.3 Choosing Investments, instruments used and balance between asset allocations

The IC has appointed a number of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business and regulated by the Financial Conduct Authority to undertake investment management.

The Fund's assets are invested on both a segregated and pooled fund basis across active and passive managers.

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, private equity, fixed interest, index-linked bonds, credit, cash and property. The Fund may also make use of derivatives and contracts for difference (either directly or via pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks.

The IC is satisfied with the suitability of the instruments used and that the investments managers and pooled funds selected are consistent with the objectives of the Fund, particularly in relation to diversification, risk, expected return and liquidity.

The mix of investments is determined mainly by the choice of strategic asset allocation benchmark within the Edinburgh Model as outlined above. Within each major market the manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

1.4.4 Realisation of investments

The vast majority of the Fund's investments may be realised quickly if required. However, the University recognise that the property funds will be more difficult to realise quickly, and that the private markets funds are illiquid. The IC will monitor the liquidity of the Fund on a quarterly basis to ensure that the majority of the Fund's assets are readily realisable at short notice.

1.4.5 Rebalancing Policy

The IC will review the allocation to the main asset classes above and will look to rebalance any asset classes that are out-with the ranges set out in the table in 1.4.1, using cash flows where possible.

1.5 Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Systemic Risk

- The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category or fund and its underperformance relative to expectation would result in difficulties in achieving the agreed return objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate cash flow requirements because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The IC manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of asset classes and investment mandates, each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the IC's expected parameters. By investing across a range of assets, including quoted equities, the IC has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the IC has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the IC takes professional advice and considers the appointment of specialist transition managers.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

1.6 Responsible Investment

The University would strongly prefer that environmental, social and governance ("ESG") considerations are among the factors which investment managers will take into account when selecting investments for purchase, retention or sale. In particular, the IC will look to choose investments that most closely give effect to the University's Responsible Investment Policy Statement dated February 2016 (http://www.ed.ac.uk/files/atoms/files/responsible_investment_policy_statement_1.pdf).

In particular, key areas where investments are impacted are as follows:

- Tobacco
- Armaments
- Fossil Fuel Reserves (from 2021)
- Conflict Minerals
- Anti-Slavery

More detail is set out in the Responsible Investments Statement.

The IC implements this policy on a "best endeavours" basis, ie they will review the market for the suitable investments that meet the requirements as far as practicable.

If the situation arises that the ESG investment policies of the University cannot be applied fully, or at all, in investments in pooled funds, Exchange Traded Funds ("ETFs") and indirect vehicles, the IC implements the following parameters:

a) The IC should invest directly (i.e. via fully segregated mandates) wherever reasonably practicable so that agreed ESG investment policies can be applied in full.

b) Where pooled funds are required, to the extent relevant to the asset, the IC should brief the managers of pooled funds on their policies on the integration of environmental, social and governance factors into investment management, and explore the possibility for adherence to these policies.

c) In all cases, before the IC makes an investment in a pooled fund/ETF/indirect vehicle that does not comply fully with the University's ESG investment policies; they should review the underlying exposure to restricted areas of investment, and the potential for future exposure. The ease of exit should also be understood, in case it is required on ESG grounds, before making an investment.

d) No investments should be made in pooled funds/ETFs/indirect vehicles that focus on investment in activities that the University does not invest in directly on ESG grounds. The IC will also avoid the use of derivatives, where possible, which derive their value solely from changes in restricted investments.

In addition, the IC considers more positively focused sustainable investments, where they believe such investments can improve the risk adjusted returns on the portfolio.

1.7 Exercise of voting rights

The University have delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term company value. Accordingly, the managers have produced written guidelines of their process and practice in this regard and the managers are encouraged to vote in line with these guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Signed for and on behalf of the University of Edinburgh Endowment and Investments Fund

Convener, Investment Committee	*Director of Finance*

Date