



LSHTM Investment Policy

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Related Policies & Procedures	Socially Responsible Investment Policy

1. Scope

- 1.1** The School has a legal obligation and fiduciary responsibility to maximise our charitable income and returns in order to further the School's objectives consistent with our agreed risk appetite established by Council.
- 1.2** The School invests funds dependent on how they have been accumulated:
- **General Funds** - Surplus cash arising from the normal operations of the School, usually short-term in nature, managed to ensure working capital requirements are met, seeking a return while preserving capital.
 - **Research Funds** – Funds received in advance for research activities. Whilst usually also short-term in nature, a return is sought whilst not putting any of the capital at risk.
 - **Endowment Funds** - Funds managed in trust in accordance with any specified restrictions determined by donors. These can either be Permanent Endowments, where the capital must be preserved and treated as long-term investments or Expendable Endowments, where the capital must also be applied and treated as medium-term investments.
- 1.3** This Investment Policy applies to all of these funds, providing individual approaches for short, medium and long-term investments.

2. Purpose and Overview

2.1 Investment Objectives

- To provide an income to assist the School to carry out its charitable purposes effectively in the short term, and
- To maintain and, if possible, enhance the value of the invested funds, so as to enable the School effectively to continue to fulfil its purposes in the longer term.

2.2 Socially Responsible Investments

- Investments decisions are made which take into account environmental, social and corporate governance (ESG) issues along with keeping in line with LSHTM's mission and ethical standards.
- Full details can be found in the LSHTM **Socially Responsible Investment Policy**.

2.3 Investment Accounting Method

The School currently analyses investment returns in line with the Standard Rules, i.e. the trust law rules which govern the allocation of investment returns and under which only the income arising from investments may be applied to its charitable purposes.

The School adopted the Total Return method of accounting for its original discretionary funds (permanent endowments plus surplus funds which will not be utilised within the next three to five years) from 1st August 2014:

Annual Return Target: RPI as at 30 June each year +2%, for the following financial year commencing 1 August. The School will confirm the Target to the Investment Manager by letter each year.

Base Value: Base year 2009.

3. Risk

- 3.1 The financial and capital risk to the School funds is managed by balancing the potential returns from particular investments with the need to avoid undue risk. The School mitigates the risk by using the expertise of professional fund managers, by ensuring that investments are diversified and by regular monitoring of the outcomes against agreed benchmarks.
- 3.2 Permanent endowments, whether restricted or not, are expected to be preserved in perpetuity, allowing a long-term time investment horizon and accepting a higher degree of market volatility and therefore capital risk. The permanent nature of these endowments means short term capital volatility and is not considered a risk. However, permanent endowment balances may include an element of unapplied total return which can be spent and this element is exposed to capital risk.
- 3.3 Expendable endowments are generally intended to be spent over a medium-term horizon (usually meaning under three to five years) so the investment of such funds needs to ensure they are not unduly exposed to capital risk.
- 3.4 Inflation risk is addressed through setting an appropriate return targets and an appropriate spending rule (for permanent endowments) aimed at only spending sums that protect the real value of the capital.
- 3.5 Currency risk to short-term funds is mitigated naturally to an extent by operating bank accounts in multiple currencies.

- 3.6** Counterparty risk and credit risk are mitigated by the use of multiple managers/providers and through defined deposit limits and credit ratings for short-term funds, as set out later in this policy.

4. Governance, Management and Reporting

4.1 Governance

- The Council acts as trustee for the School's invested funds.
- The Royal Charter, which sets out the terms of the School's governance, does not impose any additional investment restrictions on the Council over and above those of the Trustee Act.
- The Investment Working Group of the School is responsible for recommending the Investment Policy for the agreement of Council and for monitoring and reporting the outcomes. In doing so, the Group must exercise a general duty of care, as required by the Trustee Act, in its oversight of the funds.

4.2 Management

- Council appoints investment managers to advise and manage the School's investments.
- For short-term cash or near cash investments, the appointed managers are Royal London Asset Management and BlackRock Cash Management.
- For medium-term and long-term investments, the appointed managers are Rathbone Investment Management and Quilter Cheviot.
- All managers are appointed under Investment Management Agreements ("IMAs"), and their appointments are regularly reviewed by the Investment Working Group. Reviews are based mainly on the managers' performances but will also include levels of service.

4.3 Reporting

- The Managers shall provide monthly valuations and reconciliations of book costs and movement on the funds and shall provide copies of valuations when requested by the School's auditors to verify balances for the Financial Statements.
- The Managers will supply on request a copy of the independent service auditor's report on the operation of its asset management, record keeping and reporting services internal controls (ISAE 3402 Report).

5. Policy for Long-term Investments

5.1 Definition

Long-term investments consist of the School's permanent endowment together with surplus funds which are not expected to be required within the next three to five years.

The objective of the School's Managed Funds with Rathbone and Quilter Cheviot has been agreed as follows:

To provide an agreed annual income whilst maintaining the capital value of the Fund, in real terms over the long term on the basis of the investment restrictions set out in the Management Agreement (or as subsequently amended in accordance with the Agreement) and in this Investment Policy (or as subsequently amended by the School).

5.2 Diversification of investments

The Investment Working Group will agree an asset allocation model with the Investment Managers which is sufficiently diversified to comply with the requirement to mitigate risk.

The current asset allocation model is:

Asset Class	Permitted Range (% of Fund)	Index	Composite Benchmark Allocation (%)
UK Equities	15 - 30	FTSE4GOOD UK	30
Fixed Income International incl UK	10 – 30	FTA Br Govt All Stocks	17
Overseas Equities:	30 – 45	FTSE World ex UK	30
Alternatives (incl Hedge Funds and infrastructure)	0 – 25	LIBOR +3%	20
Cash	0 – 15	LIBOR 1m	3

The Finance Director will ensure that whenever the asset allocation model is changed, the Investment Policy shall be updated and circulated to all members of the Investment Working Group and to Rathbone and Quilter Cheviot.

5.3 Selection of investments

The managers may invest in in-house funds with no maximum limit, in external collective investments and directly in publicly quoted UK equities or loan stock.

The managers will have discretion to purchase and sell investments within the permitted range for each asset class which is defined in the Management Agreement subject at all times to ethical and other restrictions as defined by the Investment Working Group.

5.4 Restrictions relating to the Discretionary Investment Funds

- Socially Responsible and ESG investment restrictions are detailed in the LSHTM Socially Responsible Investment Policy.

Other restrictions are defined in the IMA. The main ones are:

- The Manager may not deal in Derivatives, including options, futures and contracts for differences.
- The Manager may not affect Contingent Liability Investments nor Contingent Liability Investments not traded on or under the rules of a Recognised or Designated Investment Exchange.
- The Manager may not acquire partly paid securities
- The Manager may not commit the School, without the School's prior consent, to supplement the Fund either by borrowing on the School's behalf or by committing the School to a contract which may require the School to add to the Fund.
- The Manager may not commit the School to underwrite or sub-underwrite any issue or offer for sale of investments.
- The Manager may not deal in stock lending.
- The Manager may affect transactions in warrants or apply for new issues.

- Restrictions on the investment of cash deposits will be as stated in the policy for the investment of short-term funds.

5.5 Voting Rights

The Manager may at its discretion, except when otherwise directed in any specific case, exercise or procure the exercise of any voting rights or other powers and discretions conferred on the registered holder or the beneficial owner of any securities in the Fund.

6. Policy for Medium-term Investments

6.1 Definition

Medium term investments relate to investments held for purposes which are likely to be fulfilled within three to five years or where there is otherwise a need to avoid the risk of capital depreciation in the short term. The funds mainly comprise unspent income from restricted funds which has arisen in previous years and expendable endowments.

Funds will be invested in accordance with this Investment Policy (or as subsequently amended by the School) and in accordance with the Socially Responsible Investment Policy.

Restrictions on the investment of cash deposits will be as stated in the policy for the discretionary investment of short-term funds below.

7. Policy for Short-term Investments

7.1 Objective

To maximise the overall rate of return, consistent with the security and forecasted availability of the funds. To achieve this, funds can be both invested via the appointed managers or directly with financial institutions that meet the criteria below.

To manage counterparty risk, the maximum amount to be deposited with one individual investment fund manager or financial institution is set at **£40m**.

On occasions where the School receives a sudden large inflow of funds, this limit can be increased subject to agreement by the Investment Working Group.

7.2 Types of permitted investment:

- Bank and building society deposit accounts and fixed term deposit products
- Money Market Funds – consisting of investment grade government and non-government money market securities. These Funds may contain a proportion of covered bonds, corporate bonds, supranational/agencies, asset backed and mortgage backed securities.
- Certificates of deposit
- UK Treasury Bills and Gilts

7.3 Minimum credit ratings for banks and building societies:

Short-term: Standard & Poor's **A2** or Moody's **P2**

Long-term: Standard & Poor's **A-** or Moody's **A3**

If deposits are being held with an institution whose credit rating falls below the above minimum, the Investment Working Group should be informed as soon as possible. Funds can continue to be held with the institution whilst the Investment Working Group makes a decision as to whether to move the funds or to make a temporary adjustment to the minimum ratings.