

St. Catharine's College ("the College")
STATEMENT OF INVESTMENT PRINCIPLES (SIP)

I. INTRODUCTION

This Statement of Investment Principles governs the management of St. Catharine's College's investment portfolio (the "Portfolio"). The SIP should act as the common reference point for material investment recommendations affecting the Portfolio. The SIP is meant to be a long term strategic document and will remain in effect unless altered by the Governing Body.

II. SPENDING POLICY

The Portfolio is managed according to the "total return" concept which assumes the long term sources of spending to be from interest, dividends, and realized capital gains.

The College policy is to target a long run annual **Spending Rate of 3.75% calculated on the average endowment values of the previous 3 years**. 3.75% is the Target Spending Rate, or the amount the College intends to withdraw from the Portfolio annually, expressed relative to a measure of the Portfolio's market value. If the Target Rate corresponds with the real return on the endowment over a given period, the real value of the spending stream and of the endowment's assets will have been maintained over that period. **The College expects gradually to reduce this rate to somewhere in the range of 2.75% to 3.75% over the next decade to respond to the lower return outlook.**

The Spending Policy should be reviewed annually to ensure that spending requirements continue to be met by investment returns.

III. FINANCIAL AND INVESTMENT OBJECTIVES

The primary **financial objectives** of the Portfolio are to:

- (1) Preserve and enhance the real (inflation-adjusted) purchasing power of the Portfolio, and
- (2) Provide a stream of relatively predictable, stable and constant earnings in support of annual budgetary needs.

The College is assumed to suffer a natural inflation rate in its costs that exceeds that in commonly referenced consumer price indices. To reflect this in its financial and investment objectives, the College defines '*preserving real value*' as to increase in value by at least **CPI+0.5%**, the latter being the chosen approximation of the College's higher inflation rate.

The Portfolio's **long-term investment objective** is defined as follows:

- **Attain an average annual total return of CPI + 0.5% + Spending Rate (net of investment management fees);**

Achieving such an ambitious objective entails investing predominantly in risk assets, whose performance will fluctuate year on year. Success of the investment strategy (as per the first objective) should therefore be measured over a long time horizon (5-10 years).

To facilitate monitoring over shorter periods, the College defines as a **short to medium term objective: Outperform the Portfolio's custom benchmark** (a weighted average return based on the target asset allocation and appropriate index returns).

IV. PORTFOLIO ASSET ALLOCATION AND RISK

A. Asset structure

The asset allocation of the Portfolio should reflect the proper balance of the College's need for liquidity, preservation of purchasing power, and risk tolerance. The Portfolio's investments shall be diversified by asset class (e.g. property, equities, bonds, and alternative investments such as private equity, infrastructure, commodities and hedge funds) and within asset classes between managers. The purpose of diversification is to provide reasonable assurance that no active manager, class of securities, or individual holding will have a disproportionate impact on the Portfolio's aggregate results.

B. Asset allocation review

Annually the Investment Committee will reconfirm the asset allocation and consider rebalancing the portfolio, and may suggest to the Governing Body a strategic change from time to time, although it is anticipated that strategic changes will be infrequent. Strategic changes will result in modifications to this SIP. Any tactical changes will be reflected in the minutes of meetings of the Investment Committee.

V. IMPLEMENTATION OF THE ASSET ALLOCATION

Management of the Portfolio should be delegated to a number of active or passive investment managers. The mandates to external managers should fulfil the asset allocation policy and the benchmarks.

VI. DELEGATION OF RESPONSIBILITIES

A. Governing Body:

- Appoint and remove members of the Investment Committee.
- Appoint and remove the Chairperson of the Investment Committee.
- Appoint and remove any Consultants to the Investment Committee.
- Approve recommended investment objectives and policies including the strategic long-term asset allocation and policy portfolio benchmarks.
- Grant any necessary waivers from investment policies or requests for special investment management resources.

B. Investment Committee:

- Investment Committee reports directly to the Governing Body.
- Recommend investment objectives and policies, for approval by the Governing Body.
- Recommend retention or dismissal of outside professionals (investment managers and custodians), subject to approval by the Governing Body.
- Periodic reporting to the Governing Body on the asset allocation and performance of the Portfolio, as well as any other substantive investment matters.

- Recommend to the Governing Body any necessary waivers from this Investment Policy Statement (SIP).
- Agree specific private equity investments within the agreed asset class limitation

C. Bursar and Staff Involved in Investment Oversight (“Staff”):

- Oversight of day-to-day activities of the Portfolio and the implementation of any changes approved by the Investment Committee.
- Periodic reporting to the Investment Committee and/or Governing Body.

D. Investment Managers:

- Selection of specific portfolio holdings in accordance with the Portfolio’s investment policy and manager-specific investment agreements.
- Report the following information at least quarterly (annually for actual property investments): total return net of all commissions and fees, the contents of the portfolio and any additions and withdrawals.

VI RESTRICTIONS

- A.** Prior to making an investment, the Investment Committee shall decide on the maximum permissible exposure to a single active manager to avoid concentration risk within the Portfolio. The Investment Committee shall also enquire for information on the investor base of that manager, to avoid holding a disproportionate amount of the manager’s assets under management.

B. Statement of Investment Responsibility

The College acknowledges that the provision of a Cambridge education, and of research funding and opportunities for Fellows and others, incurs costs which are not covered by fees, grants and other income sources, and hence strong and persistent investment returns from the Endowment are essential to the survival of the College and the delivery of its charitable mission to advance education, religion, learning and research. It echoes strongly an observation from the University of Cambridge’s 2016 Working Group’s Report on Investment Responsibility, noting:

... that the principal activities of the University, through which it seeks to contribute to the public good (scholarship, teaching and research), are in financial terms essentially and structurally loss making. Expected returns from CUEF and other capital investments are therefore critical to the success and sustainability of the University and its ability to contribute to society, and its trustees must be mindful of not doing harm to their charitable purposes in exercising their responsibility.

The primary fiduciary responsibility of the Master and Fellows as trustees of the College in investing and managing the College’s endowment and other financial investment assets is to maximize the financial return on those resources, taking into account the amount of risk in accordance with this investment policy. However, there are circumstances, described in Charity Commission guidance and founded in judicial decisions, when the College may balance against its primary responsibility considerations of the ethical nature of investments.

It is the College's policy to take account of ethical and other issues of social responsibility in making investment decisions. This includes a policy of not investing directly in any business whose ethical practices are considered to be in conflict with the College's mission. Specifically it will not invest directly in companies with a substantial proportion of their business in the arms, tobacco and gambling industries. Nor will it invest directly in the most pollutive industries such as thermal coal and tar sands companies. The College acknowledges and accepts that it also invests in index tracking securities, which give it benefits of investment flexibility, diversification and reduced costs, but which will on occasion also result in it having indirect investments in companies operating in those sectors which are excluded to direct investments.

The Committee will ensure that all discretionary managers are aware of the College's requirement to take account of ethical issues in making investment decisions, and to draw the Committee's attention to any matters expected to result in a conflict with this Statement at the earliest practical stage. The Committee will review these issues with College's major investment managers at least annually.

The Investments Committee, under the oversight of the Governing Body, is responsible for the implementation of this policy on Investment Responsibility. In line with the recommendations of the University's 2016 Report on Investment Responsibility, the Investments Committee will:

- write to discretionary fund managers to ensure that they are aware of this policy, directing its discretionary managers to draw the Committee's attention to any matters expected to result in a conflict with this policy at the earliest practical stage.
- monitor the policies applied by discretionary managers, with a view to using its influence as a material client of these managers to shape these policies where appropriate;
- consider exercising the College's voting rights as a shareholder where feasible and appropriate to reflect the considerations set down in this policy;
- facilitate regular and well-informed debate about the operation of this policy by minuting relevant matters as they arise from time to time for the consideration of the Governing Body.

The Investments Committee is responsible for keeping the policy on Investment Responsibility under review. It will report to the Governing Body annually on the operation of the policy.

VII. MONITORING OF OBJECTIVES AND RESULTS

All objectives and policies are in effect until modified by the Investment Committee, and approved by the Governing Body. They will be reviewed at least annually at a meeting of the Investment Committee for their continued appropriateness.

The Portfolio will be monitored periodically for consistency of each manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolio results will be reviewed by the Investment Committee on a quarterly basis. **The Portfolio's performance relative to the average annual total return investment objective of CPI +0.5%+Spending Rate will be evaluated over rolling five and ten year periods. Over shorter periods it will also be evaluated with respect to the custom benchmark.**

*Governing Body
October 2019*