BIRKBECK, UNIVERSITY OF LONDON

INVESTMENT POLICY

This policy was approved by Finance & General Purposes Committee at its meeting on 2 November 2015

1 INTRODUCTION

1.1 The Investment Policy aims to describe:

- Governors’ appetite for risk in relation to College investments;
- The types of investments which can be held;
- Criteria for assessing counterparty suitability;
- Investment term and liquidity;
- Responsibilities;
- How we benchmark investment returns;
- When and how funds can be raised through borrowing;
- Whether the College can loan to or invest in subsidiaries or other third parties.

1.2 This policy aims to support our core business activities, purchase of capital equipment and our Estates Strategy. It also includes the College Ethical Investment Policy.

1.3 A report on compliance against this policy will be presented to each meeting of Investment Committee and the policy will be reviewed at the Summer term meeting each year. Any amendments to the policy will require approval at a subsequent meeting of Investment Committee.

2 GOVERNANCE

2.1 The College’s powers to invest and borrow money are exercised by the Governors. Governors are responsible for appointing investment managers, for approving powers and restrictions on investments and for approving loans and credit facilities.

2.2 The Finance & General Purposes Committee is responsible for the control of investments and loans and for appointing the Investment Committee which advises on investment strategy and has oversight of the College’s investments and loans and the performance of the investment managers.

2.3 The Audit Committee, through the internal audit programme, is responsible for monitoring the effectiveness of the policies and controls in place for investment management and for assessing risk management in relation to investments and loans.

2.4 The Director of Finance is responsible for the implementation of this Policy and, working with the investment managers, for day to day management of investments and loans.
3 RISK APPETITE

3.1 All investment and borrowing decisions must adhere to the general risk appetite of governors which can be summarised as:

3.1.1 Short term investments (up to 3 years)
Low risk appetite with minimal risk to capital. Lower investment returns likely over the long term. Investments are likely to be in cash deposits or similar.
Short term investments will include the day to day working capital of the College.

3.1.2 Medium term investments (3 to 5 years)
Medium-low risk appetite. Limited potential for loss of capital in exchange for returns above those received from low risk cash deposits.

3.1.3 Long term investments (greater than 5 years)
Moderate risk appetite. Risk of loss of capital over the long term should be low although the risk of short term fluctuations in value are understood. Real value of investment should grow over time. Investments may provide the opportunity for capital growth as well as income.
Long term investments may include easily tradeable investments which are intended to be held for the long term as well as fixed term investments.

3.2 The time periods represent the expected holding period for an investment.

3.3 The levels of investment in each of the three categories will be dependent on our estates strategy and working capital needs.

4 TYPES OF INVESTMENTS WHICH CAN BE HELD

4.1 All investments must be held in Sterling unless specific authority is granted by Investment Committee.

4.2 The College is able to operate bank accounts in Euros and Dollars to assist with the receipt of research and other funds.

4.3 Receipts into the Euro and Dollar bank accounts should ordinarily be converted into Sterling as soon as possible unless payments in Euros or Dollars are expected in the short term. All other foreign currency receipts or balances in the Euro and Dollar accounts which are not required in the short term should be converted into Sterling as soon as possible to reduce the risk of losses due to adverse currency fluctuations.

4.4 In circumstances where it is beneficial to retain foreign currency for longer periods, the use of hedging strategies must be considered to mitigate potential exchange rate losses.

4.5 The following types of investments can be held with appropriate counterparties (as defined by section 5):
• Fixed term and instant access cash deposits;
• Certificates of deposit;
• Money market funds;
• Pooled investment funds;
• Bonds;
• Equities;
• Exchange Traded Funds (ETFs);
• Commodities
• Property.

4.6 The College currently holds investments in a real return fund operated by Newton Investment Management Ltd. The investment was approved by Investment Committee and performance of the fund is monitored at each meeting. Although the investment is liquid it is treated as a long term investment (see clauses 3.1.3 and 6.3).

4.7 Investments not included in clause 4.5 or which have not been specifically approved by Investment Committee (and subsequently added to the Investment Policy as approved types of investment) are prohibited.

5 APPROVED COUNTERPARTIES AND LIMITS

5.1 In conjunction with the risk profiles, counterparty limits, approved investment types etc outlined in this policy, the risk of loss due to counterparty failure is mitigated by only investing in counterparties with high credit worthiness. Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. The change to ratings does not necessarily reflect deterioration in the credit worthiness of an institution but may result in volatility of the key ratings used to monitor the financial strength of that institution. Whilst counterparty credit rating will remain an important determinant of the quality of an institution it is important to continually assess and monitor the financial sector on both a macro and micro basis and in relation to the economic and political environments in which institutions operate.

To this end, the College may utilise the services of professional advisors from time to time.

5.2 In conjunction with the above, counterparties for short term investments must satisfy the following minimum criteria:

5.2.1 Be a UK domiciled bank or building society with a Moody’s long term rating of A or above (where A is defined as “judged to be upper-medium grade and subject to low credit risk”); or

5.2.2 Be a non-UK bank domiciled in a country which has a sovereign Moody’s long term rating of Aaa and with a minimum Moody’s long term rating of Aa (where Aa is defined as “judged to be of high quality and subject to very low credit risk”); or
5.2.3 Money Market Funds with a Moody's rating of Aaa-mf (defined as having “very strong ability to meet the dual objectives of providing liquidity and preserving capital”)

5.3 Counterparties for investments for the medium and longer term will be assessed on a case by case basis and their strength will be regularly considered by the Investment Committee.

5.4 Investments will be transferred from counterparties who subsequently fail to meet the criteria set out in this section as soon as it is practical to do so. Fixed term deposits will be moved on maturity of the investment except in cases where there is a serious risk to capital in which case early withdrawal, even where this will lead to a break charge, should be considered.

5.5 A range of counterparties should be used to reduce the risk of capital loss with no more than 20% of total cash available for investment being held with a single counterparty.

6 INVESTMENT TERM AND LIQUIDITY

6.1 The investment terms need to ensure that our cash needs are met without the need to break fix term investments. Whilst optimising investment return is important this objective is secondary to security of capital and liquidity.

6.2 A range of investment terms should be used to support our daily cash needs, longer term capital plans and new business initiatives. A monthly cash flow forecast looking at least four years into the future will be developed and reported regularly to Investment Committee. A daily cash flow forecast will also be developed for the current year to support short term cash requirements. Both cash flow reports will ensure that cash is available when needed.

6.3 The long term financial sustainability of the College is critical and it has been agreed that a minimum level of cash or liquid investments should be retained at all times. For planning purposes, a minimum holding equivalent to a liquidity of 60 days (roughly £15 million at present) has been set. Due to the long term requirement to hold these funds they are currently invested in a real return fund operated by Newton Investment Management Ltd.

7 ROLES AND RESPONSIBILITIES

7.1 The Finance Director is responsible for ensuring that the terms of this policy are adhered to. Regular reports will be provided to the Investment Committee.

7.2 Short term investments which meet the criteria laid out in this policy can be placed by any two of the following members of staff:

- Finance Director;
- College Secretary;
- Deputy College Secretary (Governance).
7.3 Medium and long term investments will be approved in advance by the Investment Committee and actioned as appropriate by one or more members of staff listed in clause 7.2.

7.4 The use of third party advisors must be approved by Investment Committee.

8 BENCHMARKING

8.1 Security of capital and liquidity are the two key investment priorities for the College. We will aim to achieve the optimum return on our investments commensurate with these two investment priorities.

8.2 The Investment Committee will determine appropriate benchmark rates for different investment classes as appropriate.

8.3 The Newton investment fund has a benchmark return of one month LIBOR plus 4% over a rolling five year period.

9 BORROWING

9.1 The College is able to borrow funds to support capital projects of the College with the specific approval of the Board of Governors. Borrowing can also be retrospectively agreed against an asset previously purchased/constructed from College funds. With the exception of a modest overdraft facility to manage short term issues of liquidity, borrowing cannot be undertaken for revenue purposes (it should be noted that the College does not currently have the need for an overdraft facility).

9.2 Funds can be borrowed from any source, for any length of time and via any type of funding arrangement although a business case outlining the benefits and risks of the recommendation must be provided to Governors. The College must be able to afford the principal and interest repayments, ensuring that key financial performance indicators are maintained at all times. The currency of the loan should usually be the currency of the country in which the asset being funded is located.

9.3 Principal must be paid on a regular basis from the completion of the asset being funded ie interest only loans with a bullet repayment at the end of the term are not allowable.

9.4 To limit the risk of exposure to adverse interest rate movements no more than 50% of the borrowing can be linked to a variable interest rate.

9.5 Security over capital assets, cash or future revenue streams can be offered by Governors in relation to borrowings.

9.6 Financial instruments can be utilised with the approval of Governors where they are directly linked to reducing the cost of an underlying loan of the College eg interest rate cap. These types of instruments cannot be purchased on a stand-alone basis as investments.

9.7 The College should aim not to exceed the borrowing threshold which requires formal approval from HEFCE as defined in the Memorandum of Assurance and Accountability between HEFCE and Institutions:
“Where total financial commitments (long-term and short-term) exceed five times its average earnings before interest tax depreciation and amortisation (EBITDA)”

The limit based on EBITDA at 31 July 2014 would be c£40 million.

10  INVESTMENT IN SUBSIDIARIES

10.1 The College is able to invest in wholly or partly owned subsidiaries with the specific approval of governors on a case by case basis. The College investment can be as equity or debt. Appropriate legal and financial due diligence must be undertaken.

10.2 Finance & General Purposes Committee will receive regular reports on performance from the directors of subsidiaries.

11  STAFF, STUDENTS AND OTHER THIRD PARTIES

11.1 The College is able to loan money to the College students’ union with specific approval from governors.

11.2 Loans cannot be made to staff, students or governors with the exception of season ticket or other specific loans to staff which are provided under an approved College HR policy.

11.3 Investment in third parties, whether by equity, debt or grant funding, cannot be made without the explicit approval of governors on a case by case basis. This includes staff or student spin-out companies.

12  ETHICAL INVESTMENT POLICY

12.1 A separate Ethical Investment Policy will be approved and will form part of this Investment Policy.