CITY
UNIVERSITY OF LONDON
EST 1894

INVESTMENT POLICY

Reviewed: August 2021

Approved by Council: 7 October 2021

1. Purpose and scope

1.1 The purpose of this document is to set out City's policies in relation to the management of risk arising from investment activities (the "Policy") as approved by Council. This document should be considered in conjunction with City's Financial Regulations and Scheme of Delegation.

1.2 This policy addresses those risks that may cause City to incur financial loss as a result of fluctuations in the value of their investment portfolio. The scope of this Policy is limited solely to the management of risks associated with investment activities as set out below. Please see Appendix 1 for a definition of each of these risks.

- Liquidity risk;
- Market risk (including interest rate, foreign exchange ("FX") and inflation risk);
- Counterparty credit risk;
- Operational risk; and
- Legal and regulatory risk.

1.3 This policy is in compliance with the recommendations of the Chartered Institute of Public Finance and Accountancy's ("CIPFA") Treasury Management in the Public Services Code of Practice in relation to its investments.

1.4 This document is distributed to all employees involved in investment activities on an annual basis who are required to confirm that they have read the document and will comply with the policies set out in the document unless exemption has been expressly approved by the authorised party. Failure by a City employee to comply with the policies provided in this document may result in a disciplinary action by City. The investment policy is periodically updated to reflect any changes in City's financial position, market practice, or guidance issued by any regulatory bodies.

The policy is set out as follows:

- Section 2 sets out the key governance principles and responsibilities;
- Section 3 sets out City's investment objectives;
- Section 4 defines City's authorised investment instruments, exposures, maturities and currencies;
- Section 5 presents the parameters applied to determine the creditworthiness of investment counterparties; and
- Section 6 describes City's internal control framework in relation to investment activities.
- Section 7 covers the sustainable investment policy for endowment funds

2. Key governance principles and responsiblities

2.1 Delegation of authority

2.1.1 Ultimate responsibility for approving this Policy rests with Council following consideration by SIPCo.

2.1.2 Ultimate responsibility for the monitoring and updating of the Policy is delegated to the Chief Financial Officer ("CFO").

2.2 Policy updates

2.2.1 This Policy is regularly monitored and updated to ensure that City has in place an appropriate Investment Policy framework which enables it to effectively implement its chosen investment strategy and be well positioned to identify investment opportunities and risks as they arise.

2.2.2 The Policy is periodically (no less than annually) reviewed and monitored to ensure that City's risk appetite in relation to the investment of surplus cash and endowment funds continues to be appropriate in light of City's strategic objectives, risk appetite,

financial performance and the macroeconomic environment. Triggers for a review of the Policy include but are not limited to:

- Changes in the macroeconomic situation that impact City's risk appetite in relation to investment activities;
- Changes in the banking sector that would materially change City's risk profile; and
- Revisions and changes to City's strategic objectives, risk appetite, financial performance or operating activities.

2.3 Data retention

City will maintain full records of its investments decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

2.4 Expertise and experience

2.4.1 City seeks to appoint individuals or professional advisors with the appropriate level of knowledge, experience and expertise to ensure they can fully discharge their duties in relation to City's investment activities. Such advisors will be appointed in accordance with the institutional procurement policy. The appointment of fund managers will be subject to approval by SIPCo.

2.4.2 All City staff members responsible for investment activities are subject to regular training programmes to ensure that they fully discharge their duties in relation to its investment activities.

2.5 Code of conduct

City will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that relevant staff are properly trained to reduce the risk that City will be involved in a transaction relating to the laundering of money.

3. Investment objectives

The purpose of this section of the policy is to set out City's investment objectives, as approved by Council. City's investment objectives are prioritised as follows:

3.1 Security

In order to minimise the risk that City will incur financial loss as a result of an adverse fluctuation in the value of the investment, the security and the preservation of the capital value of any funds invested are the first and most important considerations of any investment decision made by City.

3.2 Credit

The credit risk of counterparties is considered as part of any investment undertaken by City in order to minimise the risk that it will incur financial loss as a result of counterparty default.

3.3 Yield

The investment of surplus cash should return a yield that is acceptable to City within its defined risk appetite. The yield returned on investment activities is considered only after security and credit have been prioritised.

3.4 Liquidity

Access to funds invested is considered as part of any investment decision undertaken by City in order to ensure that cash is available when required to meet financial obligations as they fall due or at short notice. Any investment decision gives consideration to the maturity profile of the instrument and the forecast accuracy of the underlying surplus cash. City will generally aim to maintain access to liquid funds equivalent to a minimum of 45 days operating costs as determined by the latest available cash flow forecasts. Available liquidity is defined as cash funds and investment maturities available on immediate call up to a period of 5 working days' notice and including all available undrawn committed banking facilities.

4. Permitted investment instruments

The purpose of this section of the policy is to set out the following as approved by Council:

- Authorised investment instruments
- Authorised exposure limits
- Authorised maturities
- Authorised currencies

4.1 Unless separate approval is granted by Council, City is authorised to undertake investment activities for the following investment instruments, exposure limits, maturities and currencies only:

<table>
<tr><th>Investment Instrument</th><th>Exposure Limit</th><th>Maturity</th><th>Currency</th></tr>
<tr><td>Term Deposits/
Certificates of Deposit</td><td rowspan="3">Up to 100% of the forecast surplus working capital cash position (currently forecast to be £79M as at 31 July 2022) at the time of maturity of the investment</td><td rowspan="5">Up to 12 months</td><td rowspan="5">GBP denominated investments only</td></tr>
<tr><td>Government Bonds
(including Treasury Bills)</td></tr>
<tr><td>Commercial Paper</td></tr>
<tr><td>Money Market Funds</td><td rowspan="2">Up to 40% of the forecast surplus cash position at the time of maturity of the investment</td></tr>
<tr><td>Fixed Income Funds</td></tr>
</table>

4.2 When evaluating the suitability of any of the investment instruments set out in the above table, City gives consideration to its current financial situation and investment objectives as defined in section 5 of this policy. It is the responsibility of the CFO to ensure that City retains appropriate documentation for all deals and transactions executed, and that procedures exist in relation to the execution of investment deals and transactions.

4.3 Following the Banking Reform Act 2013, when placing funds with regulated authorised banks or funds, City will avoid investments in any form of equity, subordinated debt and/or bank holding company debt instrument.

5. Authorised counterparties

The purpose of this section of the document is to set out the policy in relation to the management of counterparty credit risk and to outline high level guidance in relation to the daily operation of the investment policy.

5.1 In order to reduce the risk of City incurring financial loss as a result of counterparty default, it believes that undertaking investment activities with authorised counterparties and setting a maximum exposure for each authorised counterparty is a prudent practice to be followed.

5.2 The authorised maximum exposure limit for each authorised counterparty is determined with reference to Sovereign and Corporate credit ratings as published by Standard & Poor's ("S&P"), Fitch and Moody's. Appendix 2 of this Policy presents the credit rating definition used by the three major rating agencies.

5.3 When evaluating the exposure to a counterparty and the potential financial impact, consideration should be given to the total aggregated exposure to that counterparty, including but not limited to financial instruments and debt held with that counterparty and with other parts of the same financial group.

5.4 City assesses creditworthiness for each separate legal entity independent to the creditworthiness of the parent because in an event of default, the parent company of a subsidiary may not provide financial protection.

5.5 City applies the following parameters in order to determine the creditworthiness of counterparties when undertaking and monitoring investment activities:
City assesses appropriate credit risk through the use of the long term credit ratings assigned by S&P, Fitch and Moody's. The minimum rating hurdle required below should be met by a minimum of two of the three rating agencies.

Rating Level	**Deposit Limit**
Entities rated A/A/A2 or above	£16 million
Entities rated A-/A-/A3	£ 12 million
Entities rated BBB+/BBB+/Baa1	£ 8 million

5.5.1 For the avoidance of doubt, all deposit limits apply to principal amounts and are not limited by accrued interest. The permitted deposit limits are to be applied to total banking group deposit exposures. The clearing bank working capital limit specified below is to be excluded from the deposit limit calculation.

5.5.2 City is authorised in addition to the above to apply a working capital limit of £30 million for its clearing bank operations for periods up to a maximum period of 1 month from the date of receipt of SLC payments. This is to accommodate the sizeable SLC receipts anticipated during the financial year and facilitate operational cash management.

5.5.3 All money market or fixed income funds should have a minimum long term credit rating equivalent of A/A/A2 as defined by S&P, Fitch and Moody's;

5.5.4 The sovereign credit rating of the country of domicile for non UK counterparties should have a minimum long term credit rating of A/A/A2 as defined by S&P, Fitch and Moody's;

5.5.5 Exposure to any one counterparty should not be greater than 30% of funds held based on the forecast surplus cash position as at the time of the investment; and

5.5.6 All investments should be GBP denominated.

5.5.7 Should any counterparty's individual ratings be downgraded, City will reduce their holdings in that counterparty so that the investments held are in line with the counterparty limits within section 5.5. This will be done as soon as the current deposits held with the counterparty mature and funds can be reinvested elsewhere.

5.6 The CFO is responsible for monitoring the credit worthiness of all counterparties with whom City has an exposure to as a result of investment activities in order to detect any deterioration in the creditworthiness. The CFO has the authority to reduce any bank or investment counterparty deposit limit at his sole discretion if warranted by market circumstances.

5.7 Where deposits are placed with a BBB+/Baa1/BBB+ rated counterparty or country of domicile and two ratings drop below BBB+/Baa1/BBB+, the funds should be repaid at maturity. No new deposits should be placed or renewed with entities rated below BBB+. It should be noted immediate exposure reduction may not be permitted until the end of a fixed term investment period.

5.8 Bank credit ratings are to be checked before the renewal or placement of any new investment. Ratings on existing bank counterparties should be checked for any change and formally recorded monthly.

6. Internal control

6.1 Segregation of duties

In order to reduce the risk that City incurs financial risk as a result of fraud or error relating to investment activities the following practices are applied in relation to the segregation of duties:

6.1.1 The implementation of the Policy is performed by City staff members who are independent to the approval of the Policy;

6.1.2 The execution of the transaction is performed by a City staff member who is independent to the transmission of the funds or confirmation of the transaction; and

6.1.3 Reporting and compliance with the Policy is performed by a City staff member who is independent to the implementation of the Policy.

6.2 Roles and Responsibilities

6.2.1 The CFO is responsible for ensuring that roles and responsibilities in relation to investment activities are defined, approved and documented. This should include an internal procedures document to complement the TMP to act as a reference point for persons within the department in case of any absence or sickness. This should include the operational steps required for deposit administration and a process to avoid inadvertently doubling up on bank exposures if using one or more external investment managers.

6.2.2 The CFO is responsible for ensuring the continuity of business in relation to the management of investment activities in the case of absence of a member of the team.

6.3 Management Information

City prepares monthly Management Information in relation to investment activities and this is presented to the Finance Committee.

6.4 Interest Rate Risk Management

City will manage its exposure to fluctuations in interest rates with a view to minimising interest costs payable. It will optimise its interest receivable revenues while maintaining the security of the invested funds through the prudent use of its approved financing and investment instruments, methods and techniques.

6.5 Foreign Exchange Policy

6.5.1 City's policy is to minimise foreign exchange risks and losses. It will retain funds in currencies only to the extent that payments are due to be made in those currencies in the short term, and generally for no more than 30 days.

6.5.2 Long term currency payables resulting from EU or other foreign research and other grants in that currency should be maintained in their original currency and within any EU funding constraints.

6.5.3 Foreign currency balances will be closely monitored to minimise exposure to foreign exchange movements.

6.5.4 All surplus non-Sterling currency receipts will be exchanged into Sterling as soon as possible at the best rate available. However, the CFO has authorisation to defer currency exchange transactions by up to 3 months to allow advantage to be taken of favourable and identifiable forward foreign exchange rates.

6.6 Best Value and Performance Measurement

6.6.1 City is committed to the pursuit of best value in its investment management activities and to the use of performance methodologies to measure that aim within the framework set out in its Investment Policy.

6.6.2 The investment function will be subject to on-going analysis of the value it adds in support of the organisation's stated business or service objectives. It will undertake regular examination of alternative methods of service delivery, and of the scope for other potential improvements.

6.6.3 The performance of the Investment Management Function will be measured by Internal Audit as part of their regular review and monitoring of this area.

6.7 Use of External Service Providers.

6.7.1 City recognises the potential value of employing external providers of treasury management services in order to acquire access to specialist skills. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

6.7.2 Where services are subject to formal tender or re-tender arrangements, legislative requirements and the institutional procurement policy will be applied. Each finance service provider contract should be reviewed to assess current market terms at least every 3 years. The ability to obtain more competitive pricing should be investigated and where achievable, subject to a formal tender procedure. The reasons for not formally tendering for any service upon review should be recorded.

6.8 Short term lending facility

6.8.1 From time to time, City will seek to borrow funds on a short term basis to manage its liquidity risk and to improve the availability of short term funds.

6.8.2 The arrangement of such facilities and funding is subject approval by Council, under the Financial Regulations. The CFO is responsible for ensuring that the terms of lenders' appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements and City's procurement policy will be applied.

6.8.3 Where conditions are proposed by lenders including but not limited to, charges over assets, compliance with financial and non-financial covenants and legal assurances on future performance, such conditions will be individually reviewed and the potential impact on City will set out in any proposals, including a financial analysis of the impact on forward financial forecasts. The intention should be to minimise the application and effect of such conditions.

6.8.4 The CFO will report annually to the Finance Committee and SIPCo on compliance with such conditions, including assurance on prospective compliance over the next 12 months.

6.8.5 The purpose of the short term borrowing will be set out at the time of acceptance, examples being to provide short term working capital funding pending receipt of external receivables or bridging funds for capital projects. Short term borrowing will not normally be used to fund ongoing day to day operating expenses. City will ensure that the funds are used for the intended purpose.

7. Sustainable Investment Policy for Endowment Funds

7.1 Endowment funds management

The Investment Policy above is structured to best manage City's short term working capital cash resources. This shorter term perspective does not provide for a more diversified and longer term above inflation growth strategy required by endowment and/or pension funds. Therefore, Council delegates authority to SIPCo, on the recommendation of the CFO, to appoint appropriately qualified investment managers to manage City's endowment funds in line with its needs and those of its donors.

7.2 Background to changes

7.2.1 Following engagement with its stakeholders, City accepts that in making investment decisions it should have regard to its strategic values (as described in City's Vision) and promote sustainable and socially responsible behaviours.

7.2.2 This statement of investment policy and objectives for City's endowment funds has been developed to establish a clear understanding for all interested parties. It outlines return, risk and liquidity requirements for the funds, as well as providing specific guidelines and limitations for managers to ensure that assets are being invested in accordance with City's intentions.

7.2.3 Responsibility for governance of these arrangements rests with Council which it discharges by way of SIPCo.

7.2.4 City will appoint fund managers at its discretion to invest the endowment funds in accordance with its investment policy. It places responsibility for all matters associated with individual security selection to its appointed discretionary investment managers. Managers are expected to be signatories to the United Nations Principles for Responsible Investment.

7.3 Endowment Funds Investment Objectives

7.3.1 The primary purpose of the endowments is to meet the specific needs for which the funding was given to City, for example support for specific academic chairs, provisions of scholarships and bursaries and funds dedicated to other causes.

7.3.2 Individual funds will be managed on either an income or total return basis, dependent on the individual donor's wishes and terms in the funds trust deeds.

7.4 Return

7.4.1 City seeks to protect the real long term value of its funds against inflation as measured by the UK Consumer Price Inflation Index (CPI). In addition to maintaining their real value, the endowments must generate a return to meet the ongoing needs of the intended beneficiaries. Expenditure in 2015 ranged between 3.0% and 3.5% of the capital value of the endowments. This rate of distribution is consistent with research about sustainable withdrawal rates in a discussion paper prepared in conjunction with Cass Business School for the Honorary Treasurer's Forum*

**'Philanthropy in the 21st Century', Lindsay Driscoll & Peter Grant, 2009.*

7.4.2 Reflecting these needs, City aims to achieve a long term annual rate of return equivalent to CPI + 3.5%, net of fees, over a rolling 5 year period. It is the responsibility of the CFO to review this required level of return periodically to ensure that the needs of the beneficiaries, as well as past, present and future donors, are met and the funds can sustain the level of required return in different market circumstances.

7.5 Risk

City recognises that the long-term investment horizon of its endowments, whether restricted or not, allows it to accept a reasonable degree of market volatility and capital risk. Therefore whilst managers should endeavour to avoid substantial losses, short term fluctuations in capital values may occur.

7.6 Time horizon and liquidity

The CFO will determine and regularly review what proportion of the expendable endowment funds can be exposed to capital risk, depending on time horizon, required expenditure and liquidity needs.

7.7 Strategic Asset Allocation

City considers that consistent long-term investment performance will come from a broadly diversified portfolio of assets. The endowments may be invested in a range of asset classes which may include:

- Cash
- Fixed Income
- Public and private equities
- Property
- Hedge funds
- Commodities
- Collective investment schemes
- Forward currency contracts may be used for hedging purposes.

Managers are required to invest in accordance with agreed investment processes, adopting the following broad guidelines:-

7.8 Sustainable investment criteria

7.8.1 In deciding on counterparties and companies in which it is invested, City aims to remain consistent with the values it champions. In order to achieve these aims, City will not invest in companies whose activities could be seen to endanger individuals or groups of people, or whose activities are inconsistent with the mission and values of City, its community and its wider stakeholder network.

7.8.2 Through positive and negative screening, City expects its appointed managers to seek companies demonstrating a responsible approach to environmental social and governance issues and avoid investing in companies which do not. When selecting investments, managers should consider:

- Protection of the global environment, its climate and biodiversity
- Promotion of human rights
- Equality of gender, race, religion and sexual orientation
- Good business ethics and employment practices
- Avoidance of conflict in the pursuit of justice and peace
- Sustainable procurement and provision of services
- Avoidance of products or activities deemed harmful to society

7.8.3 City does not see this as an exhaustive list and recognizes that the definition of sustainable or socially responsible practices may evolve over time. Whilst operating within these parameters, appointed investment managers are left at their discretion to select individual securities and construct portfolios which can deliver the financial return, risk and liquidity objectives of the endowments.

7.9 Reporting & Performance

7.9.1 Investment managers are expected to communicate with City's Strategy, Planning and Resource Board and SIPCo on a regular basis in writing and periodically in person, at the request of the committees.

7.9.2 Managers will provide monthly valuation and quarterly performance reports. The latter are expected to detail investment returns compared against agreed benchmarks. Performance will be measured against City's inflation-linked return objective, as well as against a composite benchmark comprising the underlying market indices for each asset class.

7.9.3 On an annual basis, or more regularly if required, committees will expect to see a report on stock selection decisions, including relevant sustainability commentary.

7.9.4 City may wish its appointed managers to engage periodically with a wider group of stakeholders.

Appendix 1: Investment risks - definitions

1. Liquidity risk

The risk that City will incur financial loss as a result of being unable to liquidate investments in order to meet financial liabilities as they fall due.

2. Market risk

The risk that City will incur financial loss as a result of fluctuations in the underlying asset values, interest rates, foreign exchange rates and inflation rates.

3. Counterparty credit risk

The risk that City will incur financial loss as a result of a counterparty failing to fulfil their contractual obligations.

4. Operational risk

The risk that City will incur financial loss or damaged reputation due to failure attributable to technology, employees, processes, procedures or physical arrangements, including external events and legal risks.

5. Legal and regulatory risk

The risk that City will incur financial loss as a result of either it, or a third party with which it is dealing in its investment activities, fails to act in accordance with its legal powers or regulatory requirements.

Appendix 2: Credit rating Definitions

International Long Term Rating	Fitch	Moody's	S&P
Investment Grade			
High Quality / Best Quality / Extremely Strong	AAA	Aaa	AAA
Very High / High Quality / Very Strong	AA	Aa	AA
High Quality / Upper Medium Grade / Strong	A	A	A
Good Quality / Medium Grade / Adequate	BBB	Baa	BBB
Non-Investment Grade			
Speculative / Lower Medium Grade / Speculative – Less Vulnerable	BB	Ba	BB
Highly Speculative / Low Grade / More Vulnerable	B	B	B
Poor Quality / Currently Vulnerable	CCC	Caa	CCC
High Default Risk / Highly Speculative / Currently Highly Speculative	C	C	C
In Default	D	D	D
International Short Term Rating			
Highest / Superior / Strong	F1+-F1	P1	A1
Good / Strong / Satisfactory	F2	P2	A2
Fair / Acceptable / Adequate	F3	P3	A3
Speculative / Not Prime / Speculative	B	Not Prime	B
High Default Risk	C	-	C
Default	D	-	D

Policy Identification Number	
Policy ID to be inserted by SP&PU	
Policy Title	
INVESTMENT POLICY	
Policy Enabling Owner and Department	**Responsible for Implementation and Department**
CFO, FINANCE	ASSISTANT DIRECTOR: CORPORATE FINANCE
Approving Body	**Date of Approval**
COUNCIL	7 OCTOBER 2021
Last Reviewed	**Review Due Date**
AUGUST 2021	MAY 2022
Publication of Policy *(tick as appropriate)*	
For public access online (internet)? ☐	**For staff access only (intranet)?** X
Queries about this policy should be referred to	
[redacted] *FINANCE*	