Investment Policy

Document owner: Director of Finance

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Related guidelines and procedures: Financial Regulations
Introduction
1. The Royal College of Art is an exempt charity under the terms of the Charities Act 2011. As such the College has a charitable status for taxation purposes but it is regulated by the Higher Education Funding Council for England (HEFCE).

2. The College is incorporated by Royal Charter – it has no shareholders and it does not distribute profits. Any surpluses which arise on its income and expenditure are reinvested in the College’s teaching and research activities.

3. The charitable objectives of the College are “to advance learning, knowledge and professional competence particularly in the field of fine arts, in the principles and practice of art and design in their relation to industrial and commercial processes and social developments and other subjects relating thereto through teaching, research and collaboration with industry and commerce”.

4. The Council is the governing body of the College, and comprises lay members, staff and students appointed under the College’s Statutes. The Council has delegated decision making on investment matters to the Investment Committee.

Scope
5. The College invests funds in the following ways:

<table>
<thead>
<tr>
<th>Type of investment</th>
<th>Explanation</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Funds</td>
<td>Surplus cash arising from the normal operations of the College, usually short-term in nature, managed to ensure working capital requirements are met.</td>
<td>Cash Policy: To maintain a minimum balance of £5m or 40 liquidity days, whichever is the higher. Appointed investment manager is not responsible for the Excess Cash Policy. Investment of excess cash: Investment Policy (i.e. this document)</td>
</tr>
<tr>
<td>Endowments</td>
<td>Funds managed in trust in accordance with any specified restrictions in use and/or in the preservation of capital or otherwise, determined by</td>
<td>Investment Policy (i.e. this document)</td>
</tr>
<tr>
<td>donors.</td>
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<td><strong>Endowments are either:</strong></td>
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<td>‒ Permanent (where the capital must be preserved)</td>
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<tr>
<td>‒ Expendable (where the capital must be applied)</td>
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</tbody>
</table>

6. This policy covers endowment investments and the investment of excess cash.

7. In the event that the College receives unrestricted capital donations related to the development of its new campus at Battersea, or gifts for similar activities, these will be deemed to have the same investment objectives as excess cash.

8. In the event the College receives material donations that lead to excess cash, over and above the repayment of loans, Council will consider appropriate investment objectives on a case by case basis on the recommendation of the Investment Committee. This will be principally determined by how quickly it is planned or likely to spend the donation, whether it is considered appropriate to risk the capital sum received, taking a balanced risk/return approach.

9. InnovationRCA investments do not currently fall under the remit of this policy.

**Investment Objectives**

10. The College seeks to produce the best financial return within an acceptable level of risk.

11. The objectives for the College’s different types of investment are as follows:

   i) **Endowments:** The investment objective is to enhance the real value of the assets with an emphasis on growth. The assets should be managed to at least maintain the real capital value of the Endowment, whilst generating a sustainable level of investment income to support the current charitable objectives. The target total return is UK CPI + 3.5%.

   ii) **Development Fund:** As the College may want to spend the fund in two to three years’ time; the objective is to maintain and enhance the real value of assets, with an emphasis on capital preservation. The target total return is UK CPI + 2%.
iii) **Cash:** Excess cash (above the minimum threshold of £5m or 40 days) should be used to reduce borrowings as any return is unlikely to be higher than the interest payments for the College’s HSBC loan.

**Spending Rule for Permanent Endowments**
12. The College allows the income generated from permanent endowments, to be disbursed (spent) on an ongoing basis.

13. The budget (spend) for the year is agreed annually in September. The spend amount is based on an assessment of the accumulated interest (or deficit) plus an assumed in-year income estimate of 3% (from a combination of natural yield and capital disbursements) of the capital value of permanent endowments as at 31 July of each year.

**Investment Strategy**
14. The College has appointed Close Brothers Asset Management (CBAM) to invest the College’s Endowments and Development Fund investments at its discretion, in accordance with this Investment Policy.

**Risk**
15. **Endowments:**
   i) The College relies on generating a sustainable return to fund charitable activity to fulfill the wishes of past, present and future donors. The three key risks are inflation, fluctuations in capital values and currency risk. Inflation risk is addressed through setting an appropriate return target and an appropriate spending rule (for permanent endowments) aimed at only distributing (spending) sums that protect the real value of capital.

   ii) Permanent endowments, whether restricted or not, are expected to be preserved in perpetuity, allowing a long-term investment horizon and accepting a higher degree of market volatility and therefore capital risk. The longer term time horizon will help to address capital risk. A medium risk strategy has been agreed for this class of investment. The appointed investment managers, CBAM, will work within their Balanced Risk Profile which has a midpoint of 65% invested in equities. Parameters for investment for each asset class are show below:
16. **Development Fund**  
   i) As the College may want to spend the Development Fund in two to three years’ time the Investment Committee has agreed a low risk strategy based on absolute return and capital preservation. Given the low returns currently available on cash deposits, the Investment Committee are willing to invest the Development Fund in other asset classes, in a low risk strategy, and are accepting of additional volatility and risk compared to bank deposits.

17. **Assets**  
   i) The College’s assets can be invested widely and should be diversified by asset class and by security. Asset classes could include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the College.

   ii) The Investment Committee are charged with agreeing a suitable asset allocation strategy with the investment manager, which is set so as to achieve the College’s investment objectives.

18. **Currency**  
   i) The base currency of the investment portfolio is Sterling.

   ii) Within the long-term reserves, investment may be made in non-Sterling assets, but should not exceed 50% of the total investment portfolio value. Hedging is
permitted. Short-term reserves should be held in Sterling.

19. **Cash deposits**

The College's cash balances should be deposited with an “Acceptable Bank”, as defined by the College’s facility agreement with HSBC:

i) A bank or financial institution which has a rating for its long-term unsecured and non-credit-enhanced debt obligations of A or higher by Standard & Poor’s Rating Services or Fitch Ratings Ltd or A2 or higher by Moody’s Investors Service Limited or a comparable rating from an internationally recognised credit rating agency

ii) National Westminster Bank PLC, The Royal Bank of Scotland plc or

iii) Any other bank or financial institution approved by the Lender or

iv) Within the portfolio managed by CBAM. This money will be held in accordance with the FCA’s CASS rules.

**Liquidity Requirements**

20. The College will set its endowment funded expenditure budgets on the basis of the agreed spending rule set out in this policy. This will be funded from annual income returns.

21. Permanent funds are intended to be held in perpetuity. However, some regard to liquidity needs to be taken in case the College changes fund manager to ensure the new fund manager is not overly constrained by a transfer of very illiquid assets.

22. Expendable endowments are intended to be spent, usually within a five to ten year period. Such funds need to be liquid. The Investment Committee will determine the minimum proportion of permanent funds that need to be held in assets that can be readily liquidated within three months.

23. The College may want to spend the Development Fund in two to three years’ time. Assets should be readily available to meet cash flow requirements if fundraising for the Battersea South campaign is slower than expected or does not materialise.
Environmental, Social and Governance (ESG) principles

24. It is the College’s view that investments should deliver the best return for the College and that individual investments should show strong adherence to ESG principles.

25. The College adopt a socially responsible approach to investment allowing ethical considerations to be taken into account whilst ensuring there is no significant detrimental impact on the investment return.

26. The trustees do not wish to adopt an exclusionary policy; instead, individual investments should be broadly aligned with the positive United Nations Sustainable Development Goals.

Governance, Management and Reporting

27. The College has appointed CBAM to manage the assets (excluding excess cash) on a discretionary basis in line with this policy. CBAM provides custody of assets and is required to produce a valuation and performance report quarterly. The College has nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.

28. The Investment Committee has responsibility for agreeing strategy and monitoring the investment assets. The committee meets three times a year to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against market indices, the peer group ARC (Asset Risk Consultants) Charity Indices, and against the stated investment objectives.

29. CBAM is required to present to the Investment Committee at least once a year.