Lucy Cavendish College
University of Cambridge

May 2022

Lucy Cavendish College Investment Policy Statement

Introduction

1. Lucy Cavendish College is a registered charity incorporated by Royal Charter whose objects are to advance education, religion, learning and research in the University of Cambridge; and to provide for persons who shall be members of the University a College wherein they may work for Degrees of the University or may carry out postgraduate or other special studies at Cambridge provided that no member of the College or any candidate for membership thereof shall be subject to any test of a religious, racial, political or social character.

2. Lucy Cavendish College holds endowment and restricted assets in a unitised Amalgamated Fund (the "Fund") which is composed of charitable endowments, restricted funds and Corporate Capital.

3. The Fund is expected to exist in perpetuity and therefore can adopt a long term investment time horizon. The Fund aims to balance the needs of current and future beneficiaries.

4. From time to time the College's total investment assets may exceed the value of the Fund but may be managed alongside the endowment. As at 30 June 2021, investments totalled approximately £17.2m, of which approximately £15.3m represented permanent endowments, £1.5m restricted funds and £0.4m unrestricted funds.

Objectives

5. The financial objective of the Fund is to maintain over the long term at least the real value of the assets whilst generating a stable and sustainable return to help fund the College's operations each year

6. To achieve a balance between risk and return, recognising the College's short term cash flow requirements and long term growth perspective.

7. On a rolling 10 year basis, the fund should aim to return net of fees an annual average of the UK Retail Price Index plus 3%

Total return

8. Having taken legal advice, the Governing Body approved a Total Return policy (Statute 38 (iii) (e)).

Spending Rule

9. In order to meet annual operational needs, whilst preserving its long-term capital, the College has adopted the following spending rule to calculate the *annual cash distribution/endowment transfer from the Fund*:

- *Aim to make an annual distribution to the College based on the following calculation:*
    - *70% of the annual distribution is referenced to the previous year's annual distribution plus the UK Inflation rate (as measured by the Retail Price Index).*
    - *The remainder of the annual distribution to be made is 3% of 30% of the previous five year's average total asset value.*
    - *Governing Body will approve the final decision about distribution on an annual basis according to the needs of the College.*

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Risk

11. The purpose of risk management shall be to:

a) Identify, measure, monitor and then communicate the level of investment risk across the Total Fund;
b) Ensure that risks are well understood and accepted;
c) Evaluate investment returns and risks to determine if the Fund is adequately compensated for the level of risk.

Key Investment Risks

12. Macroeconomic and market risks are external, dynamic, and often inter-related. These risks are embedded in investments, and they are important drivers of investment performance. The Fund will not seek to avoid risk but to ensure its compensation is appropriate for the level of risk

A. Macroeconomic Risks

Macroeconomic risks include geo-political risk including climate change, inflation/deflation risk, regulatory risk, and demographic risk. Macroeconomic risks are external, uncontrollable factors; they may impact investment performance. These risks are not all quantitatively measurable.

B. Market Risks

Market risks are risks that affect the overall performance of financial markets. These risks include credit risk, currency risk, interest rate risk, leverage risk, liquidity risk, and systemic risk. These risks are generally measurable.

C. Portfolio Risks

13. The performance of The Fund largely depends over time on the exposures to particular markets, strategies, securities, and investment vehicles. Portfolio risks include but are not limited to volatility of investment returns, deviation from strategic exposures, concentration risk, manager selection risk, leverage risk, currency risk, interest rate risk, liquidity risk, credit risk, and other equity and bond factor risks. These risks are measurable.

D. Operational Risks

14. Operational risks refer to risks that occur in the investment implementation process. These risks include but are not limited to trade execution risk, business disruption/system failure risk, valuation risk, counterparty risk l and model risk. These risks are not all measurable and will be managed through appropriate controls.

E. Reputational Risks

15. Reputational risks refer to risks that may affect the good name and standing of the College which in turn may lead to financial loss. These risks are not measurable and are a matter of judgement based upon the core values and charitable objectives of the College and the prevailing views of the College's members, funders and supporters, together with those of other interested parties.

Risk Management Implementation

16. The College will, directly or through its chosen manager/(s):

1. Establish customary tools including, but not limited to, OFAC sanction lists, credit exposures, asset class concentration, to ensure the Funds aims are met within the constraints of the risk appetite
2. Select and utilise appropriate tools to provide forward-looking investment risk analytics to inform investment decisions;
3. Communicate and interpret risks of investment implementation;
4. Monitor risks relative to the Investment policy and any asset class guidelines;
5. Ensure feedback from risk management is incorporated into the overall decision making process for the Fund

Reporting

17. Risk reports will be provided. Reports will include, where relevant, qualitative and quantitative assessments of risk in a framework that allows effective decision making, recognising the investment objective of the Fund.

Responsible investment

18. Notwithstanding the financial objectives of the Fund stated above, Lucy Cavendish has long-since adopted a responsible investment policy to incorporate extra-financial factors such environmental, social and governance ("ESG") considerations in the selection of investments.

19. The Fund has excluded direct holdings with significant exposure to tobacco or armaments since 2012 and, in 2018, extended these restrictions to exclude direct investments in the thermal coal and tar sands industries with an aim to further reduce any indirect holdings in these areas over time

20. In November 2020, the Governing Body made the following decisions:

The level of indirect exposure to fossil fuels should be kept to less than 1% with a longer term view to continue to reduce indirect exposure further. The College's investment managers should use an appropriate range of alternative investments in 'green funds' or 'green companies' and their remit should be wider than just renewable energy companies. Equal weight should continue to be given to social and governance issues alongside environmental issues when selecting companies or funds in which to invest.

21. The Fund therefore aims to include holdings judged to have a positive contribution to managing environmental and social risks, such as renewable energy investments and impact funds where appropriate. Where external investment managers are utilised, the Committee should select managers who are signatories of the United Nations Principles for Responsible Investment where possible.

22. The Fund also expects any performance reporting from external managers to include regular reporting on ESG related factors, including the carbon footprint of the portfolio, and the results of any proxy voting on the Fund's behalf relating to ESG considerations.

23. The responsible investment policy will be reviewed at least every three years with due regard for prevailing industry best practice and current evidence-based research in the area.

Governance

24.The Governing Body are the Trustees of the College, governed under the Trustee Act 2000. Their investment powers are defined in Statute 38

25. The Governing Body approves the Investment Policy and has delegated decision making on investment matters to the Finance & Investment Committee, who will make an annual report to the Governing Body each year (normally at the Audit Governing Body meeting) regarding the investment performance of the Fund (year end June).

26. The Finance &Investment Committee decides how best to implement the Investment Policy and selects Investment Managers and/or alternate vehicles as appropriate.

27. Day to day responsibility for investment matters lies with the College Bursar.