

# Statement of Investment Policy

This document sets out the investment aims of King's College and the policies that guide endowment decision-making. The Investment Committee shall review and approve any changes to this document. Material changes must be ratified by the Governing Body.

## 1. Investment Objectives

### 1.1 Total Return

The endowment's portfolio is managed to maximise total return, which assumes the long-term sources of returns to be from interest, dividends, and realised capital gains. This is achieved through a strategic asset allocation that seeks to optimise return within the College's tolerance for investment risk.

The primary financial objectives of the endowment portfolio are to:

- (a) Preserve and enhance the real (inflation-adjusted) purchasing power of the endowment
- (b) Provide a stream of relatively stable earnings in support of annual budgetary needs

For (a), the College takes the consumer price index (CPI) as its basis for internal cost inflation. For (b), the College's policy (known as the 'Spending Rule') is to target a long-run annual spending rate of 3.85% of the endowment. This figure is gross of fees charged by the College's investment managers and consultants and of the costs of maintaining the College's property portfolio.

Given the above, the College's return objective is defined as:

**Attain an average total return of no less than CPI + 3.85%**

The College accepts that achieving such returns entails investing predominantly in risk assets whose performance will fluctuate. Returns from the endowment are therefore measured on a trailing five-year basis.

### 1.2 Donations

The return objective assumes that any unrestricted gifts of capital will be used to grow the endowment assets and therefore are not relied upon to preserve purchasing power of the asset base. The purchasing power of the asset base is thus only preserved as total investment returns replace the effects of the Spending Rule and inflation.

### 1.3 Risk

The College will be advised by its investment consultants regarding suitable asset allocations. Declines in endowment purchasing power that have persisted for less than five years will not result in a major review of the investment strategy, unless they entail peak-to-trough declines exceeding 20% of the endowment. The 20% limit serves as a proxy for the College's tolerance for changes in its financial condition that, however transitory when

viewed in hindsight, would be likely to trigger material changes in the scope and character of its expenditure.

## **2. Portfolio Asset Allocation**

### **2.1 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 between managers within asset classes.

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. The liquidity of the College's financial asset portfolio should be sufficient to ensure that cash can be withdrawn from the endowment to cover the expendable amount without triggering the sale of holdings at depressed prices and without leaving the portfolio overly imbalanced. Sufficient liquidity should be available to support the College's short- and medium-term capital requirements, either for the purposes of strategic investments in property or for the College's capital projects programme.

### **2.2 Review**

The Investment Committee will review the asset allocation annually and from time to time may suggest to the Governing Body a strategic change. It is anticipated that such changes will be infrequent. Tactical changes will be reflected in the minutes of meetings of the Investment Committee.

To support rigorous consideration of the endowment's performance, the investment consultants shall propose relevant benchmarks for assessing the performance of each endowment sub-segment.

### **2.3 Implementation**

Management of the endowment should be delegated to a number of active or passive investment managers and, for property, to a number of agents. Appointment of managers and agents must be made in accordance with the College's Financial Regulations.

## **4. Responsible Investment**

The primary purpose of the College's endowment is to provide long-term investment returns to support the College's charitable objects of education, religion, learning, and research. Additionally, there are circumstances described in Charity Commission guidance when the College may balance other considerations against its main fiduciary responsibility. It is the College's policy to take account of ethical and other issues of social responsibility in relation to the endowment. The College is currently considering the best ways to give effect to ethical and social responsibility considerations in managing its investments.

#### **4.1 Securities**

King's does not hold direct investments in the fossil fuels, arms, tobacco, or gambling industries. Most of the College's securities investments are in funds that trade in public equities. The Investment Committee monitors the environmental, social and governance (ESG) aims of these funds. Additionally, the College invests in actively managed funds that aim to have a positive environmental impact. The College also invests in the Cambridge University Endowment Fund. That fund has announced that it will divest from all direct and indirect investments in fossil fuels by 2030.

#### **4.2 Property**

The College is a long-term direct investor in property, particularly in the Greater Cambridge area. The College owns a broad range of different types of property, and the actions that it takes will reflect the type of property, the legal ownership structure, and the other parties involved. The College wishes to play an active role in the sustainable development of Cambridge, including in supporting relevant activities of the collegiate University.

#### **4.3 Engagement**

The College understands that it has a role to play in influencing other investors, agents, and actors who are involved in financial and property investments and seeks to collaborate with others to enable wider sectoral change. It undertakes regular engagement with its investment managers to ensure they proactively support investments that are working towards decarbonisation and effectively engaging with companies and other fund managers.

The College expects investment managers and fund managers to vote in favour of environmental resolutions (or to have a clear rationale for not supporting them), and to vote against the re-election of directors whose companies are not working towards decarbonisation.

The College looks to work across the collegiate University with institutions who are committed to similar goals. This may include lending the College's support to collective documents, resolutions, and other processes. Where appropriate, it may include direct collective engagement with fund managers and companies.

#### **4.4 Banking**

The College may have significant sums of cash that it wishes to deposit in both the short and medium term. In deciding where to deposit cash, the College will have due regard to the lending and underwriting policies of institutions. The College will also engage with its bankers, including in collaboration with other organisations, to lobby for a reduction in lending and underwriting to fossil-fuel companies. A failure by financial institutions to engage on this issue will impact on the College's willingness to do business with them.

## **5. Governance**

### **5.1 Investment Committee**

The Governing Body of the College delegates to the Investment Committee the power to manage the endowment on its behalf. The Investment Committee will act in accordance with instructions approved by the Governing Body and in line with its powers as specified in Statute K. The terms of reference of the Investment Committee may be changed from time to time with the approval of the Governing Body.

### **5.2 Investment Oversight**

The Finance department, working to the First Bursar, provides oversight of the day-to-day activities of the endowment and implementation of the portfolio asset allocation approved by the Investment Committee.

### **5.3 Reporting**

With the College's investment consultants, the First Bursar will provide periodic reporting to the Investment Committee on the endowment's performance. The Investment Committee shall report to the Governing Body at the Annual Congregation and at other times as necessary, in accordance with Statute K.

Document Details		
Responsible Officer	First Bursar	
Original Date	19.07.2024	
Next Review Date	Working Group on Responsible Investment (December 2024).	
Version Control		
Version No.	Approval Date	Change Description
V1	19.07.2024	First issue.