

**BRASENOSE COLLEGE**  
**STATEMENT OF INVESTMENT POLICY**

**AGREED BY GOVERNING BODY on 17<sup>TH</sup> JUNE 2015**

### **1. Investment Objective**

- The investment objective of the College is to preserve the value of its assets in real terms while allowing it to make an annual withdrawal of funds to support the activities of the College.
- The relevant inflation rate to be used when considering real returns is that suffered by Oxford colleges rather than the CPI.
- The College has adopted a total return policy under which it intends to withdraw 3.5% (with a maximum of 4.0%) each year from the endowment based on the average value of the endowment over the past 5 years.
- Based on an anticipated 'Oxford' inflation rate of approximately 3-4% per annum in the medium term, this implies a target nominal return of at least 7-8% to meet the investment objective.

### **2. Implications of the Investment Objective**

- In seeking to generate high long term returns the College has two advantages. First, it is a long term investor and can accept higher short term volatility than certain other investors. Secondly, it can accept a degree of illiquidity in some of its investments. Both of these should permit the use of investments with higher prospective long term returns.
- Asset classes with attractive long term returns, including some protection against inflation, include equities (both public and private) and property. Investment in commodity related assets or securities may also provide some protection against inflation.
- Index-linked gilts, while superficially attractive, offer very low real yields and are based on the 'wrong' rate of inflation.
- Conventional fixed coupon gilts offer significant risk diversification relative to other asset classes but at the cost of a substantially lower long term prospective return. Corporate debt offers higher yields but less diversification.
- Absolute return ('hedge fund') strategies can offer high nominal returns but present implementation issues (see below).

### **3. Implementation**

- In quoted securities the greatest part of the return will come from the market exposure ('beta'). Active management ('alpha') is uncertain and, ex ante, expensive. The College will therefore use a combination of 'passive' (low cost market tracking) and active strategies.

- The core of the College’s property portfolio will continue to be managed by the Land Agent with some overseas diversification through pooled funds.
- Investment in private equity requires specialist skills and access to different strategies and markets, management fees are high, returns are generated only over extended periods and there is a wide dispersion of returns between managers. Investment in private equity will therefore be implemented through the use of a number of different managed funds and fund-of-funds.
- Similarly, investment in hedge funds again requires specialist selection skills and exposure to a range of strategies, given high fees and the dispersion of returns; investment will therefore be made in a small number of multi-strategy funds, run by hedge fund managers who are of significant size to reduce organisational risk, or through multimanager funds.
- The College may implement its investment strategy through quoted closed end funds (investment trusts) as well as open ended funds. The former may, from time to time, be available at attractive discounts to Net Asset Value. Quoted vehicles may also provide an exposure to otherwise illiquid assets.
- Currency exposure offers little if any incremental return in the long term. Should the exposure to foreign currencies reach 30% the College will consider implementing a hedging strategy, and will do so in any case if hedged versions of investment funds are available.

#### 4. Strategic Asset Allocation

- The following is the strategic allocation of the College’s assets with tactical variations based on market conditions:

	Strategic		Tactical	Notes
	%	%	%	
<b>Real Assets</b>	<b>90</b>		<b>70 - 100</b>	
Quoted equities		50	40 – 65	(1)
Private equity		10	0 – 15	(2)(5)
Property		30	25 – 35	(3)
<b>Nominal assets</b>	<b>10</b>		<b>0 - 30</b>	
Hedge Funds, Bonds, Cash		10	0 - 30	(4)(5)
	<b>100%</b>	<b>100%</b>		

Notes:

- 1) The quoted equity portfolio will be invested with a preferred split of 33:67 between UK and world ex-UK equities. Implementation will be through single country, regional or global managers.
- 2) It will be the intention in the private equity exposure to have a range of commitments so that there is a spread of investments into and then returned from funds. Commitments to private equity funds made but not drawn down will be invested in quoted equities (not held in cash).
- 3) The current UK property portfolio will be maintained (but not increased) with any future purchases in overseas property to give a preferred split of 23%/7% between domestic and overseas.
- 4) This allocation can include other asset classes or investment strategies to include hedge funds, bonds and credit-related strategies. The maximum amount invested in hedge funds will be 15% of the portfolio.
- 5) The combined investment in private equity, hedge funds or other unquoted investments (excluding property) is limited to 30% of the portfolio, due to the illiquidity and higher risks often associated with these types of investment

This policy was agreed by Governing Body on 17<sup>th</sup> June 2015.