BRASENOSE COLLEGE

STATEMENT OF INVESTMENT POLICY

Approved by Governing Body on 9th November 2022

1. Investment Objective

1.1. 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.

1.2. The relevant inflation rate to be used when considering real returns is that suffered by Oxford colleges rather than the CPI.

1.3. The College has adopted a total return policy under which it intends to withdraw a maximum of 4.0% each year from the endowment based on the average value of the endowment over the previous 5 years. Typically the College intends to withdraw 3.5% per annum.

1.4. 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 6-8% to meet the investment objective.

1.5. When considering prospective returns, the College pays particular attention to the sustainability of returns and the risk that these could be eroded by a failure to assess properly the impact on returns of ESG factors and in particular climate change.

2. Implications of the Investment Objective

2.1. 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 permit the use of investments with higher prospective long term returns.

2.2. 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 such as forestry may also provide protection against inflation.

2.3. Index-linked gilts, while superficially attractive, offer very low real yields and are based on the 'wrong' rate of inflation.

2.4. Conventional fixed coupon gilts offer significant risk diversification relative to other asset classes but currently at the cost of a substantially lower long term prospective return. Corporate debt offers higher yields but less diversification.

2.5. Absolute return ('hedge fund') strategies can offer high nominal returns but present implementation issues (see below).

2.6. As a long term investor, ESG considerations and especially climate change are of particular importance and need to inform all investment decisions.

3. Manager Selection

3.1. The College principally invests through designated asset managers, who are selected to achieve the investment objectives.

3.2. As part of the selection process, the College will require the manager to explain their stewardship policies and processes for engaging with companies on environmental, social and governance issues, including how this process is monitored and the timelines along which decisions are taken. Managers are not likely to be selected if they cannot provide their process for dealing with unsuccessful engagements, and if these do not include triggers for escalation and are not incorporated into wider stewardship processes.

3.3. The College will regularly review its fund managers' performance and ESG practices, typically every two years.

4. Implementation

4.1. 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.

4.2. The core of the College's property portfolio will continue to be invested directly under advice from the College's agent with some diversification through pooled funds.

4.3. 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. The College has identified secondary funds as a way of investing in private equity with shorter time scales but still attractive returns.

4.4. 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, any investment will therefore usually be made in multi-strategy funds, run by hedge fund managers who are of significant size to reduce organisational risk, or through multi-manager funds.

4.5. 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.

4.6. Currency exposure offers little if any incremental return in the long term. Should the exposure to foreign currencies reach 40%, the College may consider implementing a hedging strategy, and may do so in any case if hedged versions of investment funds are available.

5. Strategic Asset Allocation

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

Table 1: Strategic Asset Allocation

	Strategic %	%	Tactical %	Notes
Real Assets	**90**		**70 – 100**	
Quoted equities		50	35 – 65	(1)
Private equity		10	0 – 20	(2)(6)
Property		30	25 – 40	(3)
Other Real Assets		0	0-10	(4)(6)
Nominal assets	**10**		**0 – 30**	
Hedge Funds, Bonds, Cash		10	0 – 30	(5)(6)
	100%	**100%**		(7)

Notes:

1) The quoted equity portfolio will be invested in both UK and world ex-UK equities. Implementation will be through single country, regional global or thematic managers. The portfolio will usually have a weighting to UK funds that is higher than the UK share of global markets, because the college's activities and costs are in the UK.
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 and other commitment-based funds that are made but not drawn down will not usually be held in cash but will be invested, usually in quoted equities.
3) The investment in property excludes the physical fabric of the college.
4) Other Real Assets could include commodities and forestry.
5) The allocation to nominal assets 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.
6) The combined investment in private equity, hedge funds or other unquoted investments (excluding property, but including forestry and other real assets) is limited to 30% of the portfolio, due to the illiquidity and higher risks often associated with these types of investment.
7) The College invests in the OUEM Oxford Endowment Fund, which invests in a broad range of assets with a similar distribution to the College policy. The College's asset

allocation will be calculated with reference to the portfolio net of any investment in OEF, and before the deduction of any debt used for investment purposes.

6. Sustainable investment

6.1. The College is committed to ensuring that it makes investment decisions responsibly and with integrity, always mindful of the principle that the College's "power of investment has to be used to further the purposes of the College, and that those purposes will normally be best served by seeking the maximum return consistent with commercial prudence" (as stated by the Charity Commission in Legal Underpinning note to CC14: Charities and Investment Matters (2011) para 4.5).

6.2. The College believes that by engaging in the broad set of extra-financial considerations – including environmental, social and governance (ESG) issues – the long-term financial performance of the portfolio as well as the alignment between the objectives of the College endowment and society at large can be improved. These issues will inform all investment decisions although the extent of the impact of these issues may in some circumstances be limited because of the way the College manages its endowment.

6.3. In the main, the College invests in funds rather than directly investing in companies, as the College does not have the expertise or resources to manage the risks of selecting individual stocks. Actively managed funds are chosen because it is believed that the particular characteristics of the assets and the fund manager will contribute to the overall performance of the portfolio. The College typically owns only a very small portion of each fund, so is not in a position to influence investment policy. However, the College monitors the environmental, social and governance (ESG) policy of each fund. As a minimum we expect every active manager to conform to UN Principles of Responsible Investment. The College includes a review of ESG policies within the due diligence carried out before investing in new funds.

6.4. While all active managers will have their own individual investment styles and may not have adopted the Oxford Martin Principles, we expect all managers to have a clear process towards evaluating the progress of their investee companies towards carbon neutrality.

6.5. Increasingly, both active and passive fund managers are offering new funds that have investment objectives and expected returns that are similar to existing funds while also taking into account enhanced Environmental, Social and Governance criteria. The College will select these ESG funds where possible. In particular, given the likelihood that fossil fuels will become stranded assets, the College will invest in low carbon passive funds where available.

6.6. In respect of private equity, where the College typically invests in secondaries funds, while there may be considerable diversity in the underlying businesses owned, we expect the managers to adopt the same principles as our active equity managers.

6.7. Once a year the College will ask all its managers to report the proportion of the College's funds invested in selected sectors, including oil and gas, alcohol, arms, gambling, mining and tobacco. Where managers have significant holdings in these sectors the College will require an explanation of the investment case for such holdings.

6.8. The College will share ideas and seek to learn from other Higher Education Investors who are developing investment policies that address the challenges of ESG investing and climate change.

7. Investment in Direct Property

7.1. The College will usually only invest in UK property, across a mix of property types. The College has a historic weighting of property in and around Oxford and will continue to invest in Oxford when there may be strategic benefits but will also seek to diversify the location of its property assets where possible.

7.2. The College will usually be invested in some property with long term optionality, which will sometimes provide more modest returns in the short to medium term.

7.3. When significant returns are eventually realised from these assets, for example through development, it is expected that the proceeds will be reinvested in the endowment in line with this policy, although it is recognised that it may take some time for the desired balances of investments to be achieved.

7.4. Where the College invests in property funds, it will apply the same approach to ESG as with all of its other actively managed assets.

7.5. Where the College owns agricultural land, it will engage with its tenants on biodiversity and sustainability and will look for commercial opportunities in biodiversity improvement and the mitigation of climate change.

7.6. Where the College owns commercial property, it will engage with its tenants to improve the energy efficiency of its holdings. When the College redevelops a building (for example at the end of a tenancy) it will ensure that the building is developed to the highest appropriate environmental standards consistent with financial viability.

This policy was agreed by Governing Body on 9th November 2022.