

# ENDOWMENT INVESTMENT POLICY

## Policy Control

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## 1 INTRODUCTION

Glasgow School of Art (GSA) holds endowments, comprising a range of 'Funds' received for various purposes. The objectives of the majority of the Funds are to support the awarding of scholarships and prizes as well as one Fund whose utilisation is at the discretion of the Board of Governors.

This investment policy has been prepared to provide a framework for the management of the endowment asset investments of GSA and to affirm the overall objective of ensuring that GSA will continue to be able to meet the Funds' objectives into the future, in line with the original intentions of the donors. A particular requirement is to protect Funds in which donations were made with the requirement to deliver the specified objective(s) in perpetuity.

## 2 INVESTMENT POWERS

The Funds are held by GSA in its capacity as a registered charity (SC012490). The trustees of the charity are the Board of Governors of Glasgow School of Art.

The trustees' power is governed by the Charities and Trustee Investment (Scotland) Act 2005. This confers a general power of investment and requires the trustees to invest in a diversified range of suitable instruments (the 'portfolio').

The Funds are categorised as one of the following:

- *Unrestricted donation* - the donation is not tied to specific purposes, and may be used for the general benefit of GSA.
- *Restricted donation* - the donation must be used strictly in accordance with the terms of the Fund. The terms of the Fund must have a restriction that is more specific than the general benefit of GSA.

Unrestricted and restricted donations may be either expendable or permanent.

- *Expendable endowments and donations* - the sum may or may not be invested, and in either case, the trustees are free to apply all or part of the capital to expenditure.
- *Permanent endowments* - the donor has specified that the fund is to be permanently invested to generate an income stream.

Of the almost £5m of endowment funds held by GSA, a little under £4.5m are restricted permanent endowments relating to Scholarships & Prizes, and a little under £0.5m is an unrestricted expendable 'Governor's Fund'.

The trustees must carry out their powers of investment in line with the Terms of Reference of the Board of Governors and of the Business and Estates Committee and in compliance with all legal requirements arising under UK, Scots law and international law and the jurisdictions and legal systems of all concerned campuses and legal entities of GSA.

The management of the funds comes within the authority of the Office of the Scottish Charity Regulator (OSCR).

## 3 LINES OF RESPONSIBILITY AND DELEGATED AUTHORITY

As the trustees of the charity, responsibility for the Funds lies with the Board of Governors, who have delegated authority for oversight of the stewardship and application of the Funds to the Business and Estates Committee, which is required to report regularly to the Board of Governors.

This includes regularly monitoring the general and financial management of the funds, managing their legal aspects, ensuring relevant reporting to and interaction with the OSCR (including any

associated compliance) and the regular monitoring and assessment of the risks and performance of any invested parts of the Funds to fulfil objectives.

Any amendment to this policy, the establishment of new investment relationships, transferring Fund's assets into different investment products or any material disinvestment requires the approval of the Business and Estates Committee and of the Board of Governors.

#### **4 PORTFOLIO OBJECTIVES**

The primary long-term financial objective of the investment portfolio is to balance capital growth and income generation, so at least maintaining the portfolio's real (inflation-adjusted) purchasing power after management expenses and spending; while providing a stream of relatively predictable and stable funding in support of annual budgetary needs for the ongoing operations of the Funds.

Given the variability in Fund withdrawals, GSA adopts a total return approach to its investment. Within total return, GSA values a regular funding stream which is fairly consistent (in absolute terms) from year to year and which can be expected to grow over time to maintain its real spending power; however, the objective of a total return takes priority.

#### **5 ETHICAL AND RESPONSIBLE INVESTMENT**

GSA will exclude investment in entities which derive any revenue from:

- fossil fuels;
- armaments;
- using child labour;
- high-interest rate lending,

or where there are controversies arising from or relating to:

- a firm's supply chain; or
- the impact of a firm's operations on human rights

GSA will also avoid investment in companies who derive more than 5% of their revenue from:

- tobacco;
- gambling; or
- adult entertainment.

In the interests of investment efficiency, GSA will consider the ethical and responsible investment policies of any pooled funds through which the portfolio may be invested, with the aim of avoiding significant indirect exposure to activities that are contrary to GSA's policy applied to directly-held investments. Individual investments making up the pool would need to satisfy GSA's requirements relating to ethical and responsible investment.

Where Fund investments are held in an entity which subsequently falls outside of the ethical investment criteria outlined above, then a reasonable grace period will be allowed for the entity to return to a state of compliance. If it becomes apparent that the entity is likely to persist in a state of non-compliance then the investment will be liquidated and the proceeds reinvested in a compliant investment.

Where, following the implementation of this policy or any revision to this policy, if there are investments held in entities which become non-compliant with the ethical criteria set out in this policy or its revision, the investment will be sold and reinvested in a compliant investment vehicle within one year of the approval of this Policy, subject to market conditions.

In anticipation that a donor may express a specific requirement for a donation to be held in investment funds that are Sharia compliant, GSA would expect its Fund Manager to be able to provide an option of a separate fund for investment in fully Sharia-compliant Islamic investments.

## **6 TIME HORIZON**

The time horizon of the portfolio is long-term, i.e. more than ten years. The Funds include both permanent endowments, that have the requirement to maintain the capital in perpetuity; and expendable endowments and donations that allow expenditure of capital over varying timescales.

## **7 INVESTMENT MANAGEMENT**

The Business and Estates Committee will employ the services of a properly qualified investment Fund Manager to advise on the detailed investment strategy and to advise on and execute the Investment Policy.

The Fund Manager must have a minimum of five years' proven track record in the charity sector, experience of management of similar clients, a proven track record of managing similar fund levels and be financially secure. Specific experience within the education charity sector is desirable.

GSA's investment must comprise no more than a maximum of 5% of the Fund Manager's fund.

The Fund Manager must have a total expense ratio that is reasonable compared to the peer group to ensure value for money.

GSA do not intend to specify asset allocation targets or parameters. The Fund Manager will be expected to use its discretion in both asset allocation and stock selection in pursuit of the portfolio objectives. However, the Business and Estates Committee will seek to maintain a clear understanding of the Fund Manager's asset allocation strategies and positioning in order to be confident that the overall asset blend remains consistent with the stated portfolio objectives and provides sufficient mitigation of risk.

The Fund Manager should be subject to periodic review to ensure that:

- this investment policy, including its ethical requirements, is being adhered to;
- investment objectives are being met;
- the requirements and/or service levels of the Contract are being fulfilled; and that
- the service provider represents good value for money.

The Contract appointing a Fund Manager shall provide adequate break points, to be exercised in the event that the Fund Manager is failing to meet the expectations set out above. In any event, the contract shall provide for re-tendering of the service at intervals no longer than five years.

GSA would expect to receive value-added benefits from its Fund Manager to include, for example, training for Committee members, trustees and students; advice on preparation of policy and related documents; and other actions commensurate with the trusted position of Fund Manager.

The Fund Manager, or any other of its agents, should be made aware of this policy and have the expertise and capacity to implement it.

## **8 REPORTING AND MONITORING**

On a quarterly basis, the Fund Manager will provide a valuation of investments, transaction report, cash reconciliation, performance analysis and commentary.

The Business and Estates Committee will meet with the Fund Manager at least twice each year, to ensure that it remains well informed of portfolio strategy, asset allocation and performance; following which it will report the outcome of that meeting to the full Board of Governors.

Performance will be measured against market index benchmarks and peer group portfolio comparators, to be agreed between the Business and Estates Committee and the Fund Manager.

The Fund Manager will provide sufficient information, as at 31 July each year, to enable GSA to prepare its annual audited Financial Statements.

## **9 RISK AND RISK APPETITE**

The key risk to the long-term sustainability of the funds is inflation or deflation and the assets should be invested to mitigate this over the long-term. The trustees understand that this is likely to mean that due to the nature of the investments, the capital value will fluctuate. The trustees are able to tolerate volatility of the capital value of its investments as long as current expenditure can be met from investment funding and occasional drawdowns of capital may be made to meet the needs of individual expendable endowment funds.

While there are no specific asset allocation targets or parameters for the portfolio, GSA expects the Fund Manager to mitigate the risk of asset concentration by providing appropriate diversification by asset class and by security.

To mitigate counterparty risks associated with holding cash and near-cash assets, GSA expects the Fund Manager to agree credit rating thresholds and individual counterparty holding limits with the Business and Estates Committee.

## **10 CHANGES TO THE PORTFOLIO ARISING FROM IMPLEMENTATION OF THE POLICY**

Amendments that are required to the portfolio as a consequence of approving this policy will be implemented within 12 months of the policy approval date, subject to market conditions.

## **11 AMENDMENT OR REVIEW OF THE POLICY**

With the exception of changes of office title included in the policy and minor changes of procedure, the Board of Governors will approve any change to this policy.

This policy will routinely be reviewed three years from the date of its last approval, with an earlier review if:

- there are any major changes in the law or practice;
- any weakness in the policy are identified;
- there are changes in the nature of GSA's business or structure; or if
- there are any other changes which impact materially on this policy.