Edinburgh & Lothians Health Foundation

Approved by Trustees
<u>11 March 2015</u>

INVESTMENT POLICY
UPDATED AS AT 27 AUGUST 2018

1 Investment Powers

The Trustees' power is governed by the Charities and Trustee Investment (Scotland) Act 2005. This confers a general power of investment and in addition requires the trustees to:

- Invest in a diversified range of suitable instruments;
- From time to time to review the investments;
- Consider the need for advice.

Further, the Act provides a default power to appoint an appropriate nominee (ie an investment manager) for the purpose of investment.

The governing document of the Foundation (the National Health Service (Scotland) Act 1978) makes no additional specific provision for investments.

2 Nature of Funds

The funds are in the form of expendable endowment and the Trustees are able to use both income and capital for use in charitable purposes.

3 Investment Objectives

The investment objective is to maximise the "total return" (ie aiming to achieve an investment return through both income and capital growth) within moderate parameters of risk, and to maintain the real capital value of the portfolio over the long term. There is no set share of the components within the total return.

4 Investment Targets

The investment target is to achieve an annual rate of return (ie incorporating an allowance for inflation) of CPI inflation plus 4% in order to maintain the real capital value of the endowment over the long term.

The Trustees have therefore agreed not to set a specific annual income target.

5 Risk Tolerance

The trustees place a high priority on maintaining the real value of the portfolio over the long term, and have agreed to a moderate tolerance of risk. Trustees accept that at times this will mean accepting short-or medium-term declines in capital values.

The Foundation carries a cash reserve in its balance sheet sufficient to meet normal expenditure requirements for at least 6 months.

6 Access to Investment Markets

The Trustees have considered the cost and risk implications of constructing a portfolio from a blend of directly held securities and pooled funds, and have concluded that this route is appropriate given the charity's specific requirements, particularly with respect to ethical and responsible investment, which cannot be met with sufficient proximity by pooled funds alone.

7 Benchmark and Parameters

The benchmark portfolio consists of the following asset classes and proportions, measured against the relevant market index, with the range tolerance for holdings in each asset class shown below.

Description	Benchmark %	Ranges %
Equities Total	60.0	40% - 70%
- Developed World Equities	45.0	35% - 55%
- Emerging Markets Equities	15.0	5% - 25%
Fixed Income	20.0	15% - 25%
Absolute Return / Alternatives *	20.0	10% - 30%
Cash	-	0% - 5%
Total	100.0	
Expected Return	6.8% pa (CPI +4%)	
Expected Volatility / Risk (3-5 yr)	13.2% ppa	

* Non-Absolute Return Funds can represent up to 10% with a maximum exposure of 2.5% for each holding at the time of investment.

8 Reinvestment of Income

While Trustees have not set a specific annual income target, as an important component of the operational activities, trustees request monthly income transfers.

9 Withdrawal of Capital

In order to fulfil their grantmaking strategy, the Trustees have agreed to an annual spending rule of 5% of the General Fund capital assets (based on a smoothing 3 year average valuation).

Beyond this, the Trustees do not anticipate regular withdrawals of capital. The trustees will advise the fund managers if any drawdown is required or anticipated, and if at all possible will give at least six months' notice of any capital withdrawal. The trustees understand the possible detrimental consequences of making withdrawals at short notice.

10 Investment Restrictions

The Trustees have agreed to the following investment restrictions, which they believe would be in direct conflict with the charity's objectives:

- No direct investments in companies involved in tobacco production, distillers of alcoholic beverages or armaments. Screened at 10% of revenue.
- The underlying securities of pooled funds will be screened prior to acquisitions for exposure to tobacco, alcohol and armaments at 10% of revenue and will only be invested in if these represent less than 5% of the overall assets of the relevant fund
- Both of these will be reviewed every six months

11 Ethical and Responsible Investment

The Trustees have reviewed their investment policy with regard to their duties and guidance on ethical and responsible investment, and believe that responsible investment can enhance long-term portfolio performance. In particular, capturing investment opportunities driven by environmental, social and governance (ESG) integration and active ownership may have a material positive impact on investment returns and risks.

Hence their investment manager, in particular in the equity portfolio, is encouraged to take an active approach to engagement in these areas when considering both existing and prospective investments..

The Trustees also encourages their investment manager to discharge its responsibilities in accordance with current best practice including the UK Stewardship Code, and the UN Principles of Responsible Investment.

When reviewing existing or appointing new investment managers a Panel will review a manager's ESG policies to ensure that they meet the Trustees requirements in this area.

12 Uninvested Funds

Cash awaiting investment or disbursement in accordance with the Trustees' policies may be held as part of the portfolio within the benchmark ranges set out above. Any such cash is to be held on deposit so as to obtain the highest rate of return consistent with appropriate credit and liquidity requirements.

13 Fund Manager

The Trustees have appointed Schroder (trading as Cazenove Capital Management) to act on their behalf on a discretionary basis (as of February 2014).

14 Changes to Policy

The Trustees may amend this policy at any time and will advise the fund managers accordingly. In any event the policy will be reviewed at intervals of no more than 36 months and the fund managers advised of the outcome of the review.

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