



Edinburgh & Lothians
Health Foundation

Investment Policy

December 2020

Policy Reference Information

Status	APPROVED
Author	Jane Ferguson
Approval	Trustees
Date of Last Review	December 2020
Date of Next Formal Review	December 2022

Related Policies

Policy Title
Reserves policy tbc

INTRODUCTION

The Edinburgh and Lothians Health Foundation (the Foundation) is the operating name for the Lothian Health Board Endowment Fund, the corporate trustee body for Lothian Health Board. Its purpose is to invest in projects which promote better physical and mental health and wellbeing for the people of Edinburgh and the Lothians.

The financial objective of the Foundation is to maintain the real value of the endowment over the long term, and at the same time generate a stable and sustainable income to support expenditure on charitable objects: ie grantmaking and programme delivery, and governance and management. The Foundation does this through prudent management of its investment assets and by raising money through fundraising and from legacies.

The Foundation has approximately £80m of investment assets, including c£11m in direct investment property. The Foundation has annual income from investments and donations and legacies of c£5m.

The Foundation's policy is to spend 5% of its General Funds annually, and encourage charitable expenditure from the many specific funds, indicative of the particular specialty, department, ward or research area they support.

The Foundation's reserve policy is to hold investment reserves of 20% of the valuation of the investment portfolio to manage the impact of valuation changes on the capacity of the Foundation to support expenditure on grants.

The trustees' power of investment 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.

The Foundation's trustees have delegated oversight of investment matters to the Charitable Funds Committee. Investment management is delegated to an authorised professional investment manager, regulated by the FSA.

DEFINITIONS

Assets everything the charity owns (heritable property, money, investments)

Benchmarking measuring investment performance by comparing against a comparable index or target

Total return the amount of value an investor earns from a security over a specific period, combining income and capital

Capital Growth an increase in the value of an asset or investment over time

Income / Yield earnings generated and realised on an investment over a period of time

Capital Value the value of an asset or investment

Risk the chance that an outcome or investment's actual gains will differ from an expected outcome or return

Negative Screening / Avoidance / Exclusion excluding companies from investment consideration based on social or environmental criteria

ESG Environmental, Social and Governance

Liquidity the ease with which an asset or security can be converted into ready cash without affecting its market price

Portfolio a collection of different types of financial investments (eg stocks, bonds, commodities, cash)

1 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.

2 Investment Objectives

- 2.1 The investment objective is to maximise the "total return" (i.e. 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.
- 2.2 The investment target is to achieve an annual rate of return (i.e. 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.
- 2.3 The Trustees have therefore agreed not to set a specific annual income target.

3 Risk

Attitude to Risk

- 3.1 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.
- 3.2 The Foundation carries a cash reserve in its balance sheet sufficient to meet normal expenditure requirements for at least 6 months.

Assets

- 3.3 The Foundations assets can be invested widely and should be diversified by asset class, by region and by security. Asset classes could include cash, bonds, equities, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Foundation.
- 3.4 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 transparency regarding adherence to the ethical and responsible investment.
- 3.5 The Charitable Funds Committee are charged with agreeing a suitable asset allocation strategy with the investment managers, which is set so as to achieve the overall Foundation investment objective.
- 3.6 The trustees have agreed a benchmark allocation strategy which 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.

Asset Class	Strategic Weightings %	Tactical Ranges %
Global Equities	60.0	40% - 70%
Bonds / Fixed Income	20.0	15% - 25%
Absolute Return / Alternatives *	20.0	10% - 30%
Cash	-	0% - 5%
Total	100.0	
Expected Return	inflation +4% (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.

- 3.7 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 or within liquidity funds so as to obtain the highest rate of return consistent with appropriate credit and liquidity requirements.

Currency

- 3.8 The base currency of the investment portfolio is sterling.

Credit Risk

- 3.9 The Foundation's cash balances should be deposited with reputable institutions with high credit ratings. Use of money market liquidity funds is permitted where the underlying securities have a high level of diversification and average credit rating

4 Liquidity Requirements

- 4.1 While trustees have not set a specific annual income target, as an important component of the operational activities, trustees request monthly income transfers.
- 4.2 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).
- 4.3 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.

5 Time Horizon

- 5.1 The Foundation is expected to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.
- 5.2 The Foundation can adopt a long-term investment time horizon.

6 Ethical Investment

Restrictions

- 6.1 The trustees have agreed to the following investment restrictions, which they believe would be in direct conflict with the Foundation'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.

ESG factors and Active Stewardship

- 6.2 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.
- 6.3 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.
- 6.4 The trustees also encourage 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.
- 6.5 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.

7 Management, Reporting and Monitoring

- 7.1 The trustees have appointed Schroder (trading as Cazenove Capital) to manage the assets (excluding the direct property) on a discretionary basis in line with this policy. (as of February 2014).
- 7.2 Investment managers are required to produce a valuation and performance report quarterly. The Foundation has nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.
- 7.3 The Charitable Funds Committee has responsibility for devising and implementing the Foundation's investment strategy, and monitoring the investment assets. The committee meets quarterly to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against the investment objective of CPI inflation plus 4% over the long term.
- 7.4 Investment managers are required to present to the Charitable Funds Committee / Trustees on an annual basis This report should include a review of asset allocation strategy, performance, risk profile and consistency with long term investment objective.

8 Approval and Review

- 8.1 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.