Matters arising

Outcome requested:	Finance and Investment Committee is asked to **note** the matters arising from the minutes of the meeting held on 07 June 2023.
Executive Summary:	N/A
QMUL Strategy:	Effective governance supports the achievement of all strategic aims.
Internal/External reference points:	N/A
Strategic Risks:	N/A
Equality Impact Assessment:	N/A
Subject to prior and onward consideration by:	By Committee only.
Confidential paper under FOIA/DPA:	No
Timing:	N/A
Author:	Nadine Lewycky, Head of Secretariat
Date:	12 September 2023
Senior Management/External Sponsor:	Isabelle Jenkins, Chair of Finance and Investment Committee

Finance and Investment Committee is asked to **note** the following matters arising from the meeting held on 07 June 2023.

Actions from the meeting held on 07 March 2023			
Minute no.	**Action**	**Person responsible**	**Progress**
2022.044[b]	**Presentation from Cazenove investment managers [Presentation]** The Committee recognised that although the fund's performance was below the target the previous year had been unprecedented in terms of the prevailing economic conditions with high inflation and marked changes in interest rates. The Committee explored with the fund manager whether the performance had suffered due to ethical investment considerations, and it was highlighted that fiduciary duty is the overriding concern in line with relevant regulations. The Committee asked for the fund's performance to be benchmarked against non-ethical funds comparing to those with similar risk benchmarks.	Chief Financial Officer	The response from Cazenove is appended to the matters arising.
2022.047[d]	**OfS financial sustainability report [FIC22/41]** Level 4 and 5 providers were performing well financially compared with other types of institutions. It was likely they had lower staff and building costs. We would look into their performance and report back to the Committee.	Chief Financial Officer	There are a large number of providers in the Level 4 and 5 provider bracket, however they only make up about 4% of students in the sector (Provider typologies 2022 - Methodology for grouping OfS-registered providers (officeforstudents.org.uk)). These are providers are often Further Education Colleges where over 50% of students do a qualification which is before Bachelors level so would not be good comparators to ourselves. The resourcing model, in terms of facilities and staffing requirements, would tend to be more less complex and therefore cheaper.
2022.048[a]	**Tuition fee regulations 2024–25 [FIC22/42]** Section 12 said that the university had the right to refuse fees where the payment origin could not be confirmed. This was relevant to students joining from sanctioned countries. The section would cross-reference our anti-money laundering policy for completeness.	Chief Financial Officer	The anti-money laundering policy is referenced in the Tuition fee regulations.

We have reviewed the investment policy and believe there is strong alignment with the current investment in the sustainable multi-asset fund (SMAF). For ease of reference, we have taken some snippets from your policy below and compared them to our current approach.

Investment Objective

Investment policy: The portfolio is expected to generate a total return of at least CPI inflation plus 3-4% over rolling five year periods. The annual distribution from the portfolio is approximately 3% per annum.

Sustainable multi-asset fund: The Fund has a target return of Inflation (CPI) + 4% per annum with distribution units paying a total return target distribution of up to 4% per annum.

Liquidity

Investment policy: Although the portfolio has a long-term time horizon, sufficient investments in the portfolio should be easily realisable, so that there is sufficient liquidity to meet any obligations.

Sustainable multi-asset fund: The Fund is daily dealing and the underlying holdings are liquid (94% offer with daily or weekly dealing).

Risk tolerance

Investment policy: A reasonably high level of capital volatility within the investment portfolio is considered to be acceptable given the University's long-term time horizon as it provides sufficient time for any short term decline in capital to be recovered. Diversification within the portfolio should be such as to limit the maximum downside risk or potential capital loss in the investment portfolio in any one year in normal market conditions (defined as 98% of the time) to 15-20%. It is accepted that the downside could be greater than this in extreme market conditions.

Sustainable multi-asset fund: The Fund is diversified by asset class, region and sector. The expected volatility of the strategy is 12%, approximately 70% of global equity market volatility. The 12 month 98% Value at Risk is 17.6%. We aim to outperform these assumptions through tactical asset allocation investment selection. Since inception, the max realised drawdown of the Fund has been 15.9% (20th Feb 2020 to 23rd March 2020).

Responsible Investment Policy

Investment policy: It is the duty of the University to invest in a way that furthers its charitable aims, which is normally achieved by seeking the best financial return from an investment portfolio within the level of risk considered to be acceptable. The University has restricted direct investment in tobacco production companies and looks to minimise investment in fossil fuels, armaments, gambling and adult entertainment, subject to there being no significant impact upon financial risks and returns. The University aims to increase the commitment to investments with positive environmental and/ or societal impact, subject to there being no significant impact upon financial risks and returns.

Sustainable multi-asset fund: The Fund has an embedded responsible investment policy. As well as our funds' financial objectives, we actively seek to achieve positive impact on people and planet through our investments. The responsible investment policy includes restrictions on investing in companies involved in the following activities: indiscriminate weaponry (no tolerance), armaments (>10% revenues), pornography (>3% revenues), tobacco (>10% revenues), gambling (>10% revenues), high interest rate lending (>10% revenues), alcohol (>10% revenues). This represents approximately 8% of the global equity index, providing plenty of remaining scope to achieve the funds financial objectives. As a result, we do not believe the restrictions will have a significant impact upon financial risks and returns.

The Fund will also look to invest in global leaders in sustainability that promote social and economic development through responsible business activity. We will also allocate some capital to companies who products and services address areas of environmental and social need, such as renewable energy or micro finance. Again, we do not feel this will have a significant impact on financial risks and returns. As long term investors seeking to identify future earnings growth of companies, it is important to understand the entire range of factors that could influence that growth. ESG issues are clearly relevant here and need to be understood and considered. Equally, as investors seek to address the challenges such as climate change, we would expect a significant increase in the amount of capital flowing into sustainable areas such as renewable energy, energy efficiency, and sustainable infrastructure. We believe this presents opportunities for long-term investors.

We have set-out below the Charity Multi-Asset Fund and Sustainable Multi-Asset Fund performance and quartile rankings within the peer group at 31st March 2023. The Sustainable Multi-Asset Fund will have a five year track record from the 1st August this year. The Charity Multi-Asset Fund (CMAF) represents our 'core' multi-manager approach, without any investment restrictions and with less of a tilt towards sustainability. The Fund has the same long-term objective as SMAF (CPI + 4%) and strategic asset allocation (70% equities, 10% bonds, 18% alternatives, 2% cash).

The Sustainable Multi-Asset Fund has outperformed the core approach since inception for a similar level of volatility. Over the long-term, we would expect both approaches to provide a similar level of return aligned with their inflation plus 4% objectives.

Asset Class	Fund	12M		3Y		3Y ANN		5Y		5Y ANN	
Alternatives - Multi-Asset	Sustainable Multi-Asset Fund	-2.2%	(1)	36.0%	(1)	10.8%	(1)	n/a	-	n/a	-
Alternatives - Multi-Asset	Charity Multi-Asset Fund	-4.1%	(2)	29.3%	(1)	8.9%	(1)	24.6%	(1)	4.5%	(1)