Nuffield Foundation

Investment Beliefs (March 2016)

1. ***Belief***

   As a charity we believe we should try to maximise the amount we spend on charitable purposes, and currently plan to do this for an indefinite future. Inevitably investment risk means we cannot be certain that we will be able to spend at the same level in perpetuity but we believe that this is an acceptable risk. We also believe that asset volatility can still be compatible with steady and consistent spending.

   Consequence:
   To this end we follow a return seeking strategy which we believe to be capable of supporting a spending rate of at least 4% over inflation (of ⅔ AWE and ⅓RPI). Our primary measure of success is a return that at least matches the combination of inflation, costs and spending over the long term. This leads us towards assets that will at least keep pace with GDP growth and inflation but constrains how much diversification we will have in times of financial stress.

2. ***Belief:***

   The whole Trustee body must be confident of the process of managing the endowment.

   Consequence:
   Our ability to tolerate complexity in investment strategy is limited by the governance budget (time and money) of the Trustees and Investment Committee. It is important that the Chairman of the Trustees also chairs the Investment Committee.

3. ***Belief:***

   We believe a principal threat to our return seeking strategy is that we become a forced seller of assets. We wish to minimise this possibility by holding 10% in short term gilts, whilst remaining predominantly invested in higher returning assets.

   Consequence:
   In periods of economic or market crisis the portfolio is likely to suffer significant short term declines. Trustees do not wish to sacrifice return purely to reduce volatility so accept fluctuations in asset prices within a broad pre-determined range. A 10% holding in Gilts (together with portfolio income) will provide five years of certain cash which can be spent to support spending in a falling market, and which should allow the rest of the portfolio time to recover. However, if the portfolio value fell below an anticipated range of outcomes we would review our spending plans; trustees also have a great deal of autonomy and flexibility about their spending plans. In order to avoid unnecessary liquidity issues our strategic position is not to hedge overseas assets back to GBP.

4. ***Belief:***

   We have a tolerance of illiquid assets (where they offer the potential of a substantial return premium over liquid ones), but acknowledge that illiquidity must be carefully managed in order for cash needs to be met.

   Consequence:
   We established a target for illiquid assets of 20% of the endowment's 'fair value' but accept that the actual percentage can fluctuate widely around that point . When distributions from the Private Equity portfolio are insufficient to meet new capital calls these can be met by selling public listed equity (since private and publically listed equities are substitutable in meeting the overall investment objectives).

5. ***Belief:***

   We are not experts in investing and recognize that external advice is essential but always brings agency risk and possibly conflicts of interest whilst all unnecessary costs, internal and external, detract from returns.

   Consequence:
   We buy external advice for the Committee and delegate security selection to external investment managers. We keep under regular review the costs and benefits of this expenditure, for example, on investment consultants or active managers.

6. ***Belief:***

   We invest in an unconstrained way to achieve a high return, subject only to protecting against reputational damage.

   Consequence:
   Our current stance is that any segregated mandates should exclude companies that predominantly invest in tobacco products.

7. ***Belief:***

   We wish to invest in companies with strong capital discipline that both have good governance and are attractively priced. We believe these will generate high long term returns but note that short term (1-3 year) measures are normally a poor guide to their long term performance.

   Consequence:
   We employ equity managers who are focused on company selection where their process is clear and aligned with our longer term horizon. We accept that this can result in significant performance differences when compared to passive indices. We mitigate our manager risk by employing several managers who each approach the task in a somewhat different way. We review managers regularly, focusing on the consistency of their approach. We operate a disciplined rebalancing policy which takes money from the outperformers and adds it to the underperformers, ensuring weightings are kept broadly in line. We monitor the portfolio with a view to maintaining a balance across investment styles, geographies and industries.