

## Nuffield Foundation Investment Beliefs

The purpose of this document is to describe the underpinning principles of our investment strategy. They are reviewed regularly by Trustees.

1. Our aim is to maintain a high level of sustainable spending, responsibly earned, over the very long term.
2. We think that the main threat to achieving this is the effect of inflation on fixed incomes. This leads us to invest in real assets such as equities which can increase their profits at least in line with inflation.
3. We believe that markets are inefficient and this can be exploited by skilled, benchmark agnostic, active managers
4. We recognise that these assets are more volatile than others, but we are able to tolerate significant volatility in asset prices because of the short-term nature of our commitments (we plan on a five year cycle). This tolerance is subject only to i) having sufficient short-term liquidity and ii) our ability to maintain confidence in our strategy in falling markets.
5. The bedrock portfolio is based on liquidity of at least 10% to accommodate periodic shocks to the rest of the portfolio. We seek to avoid any counterparty or liquidity risk in this part of the portfolio. We carefully monitor our commitment pace and levels of outstanding commitments against this.
6. We have a limited capacity (or desire) to manage a complex portfolio but will so long as that is commensurate with high returns. Where possible we seek diversification through different public and private equity managers and maintain a balance across investment styles, geographies and industries.
7. We believe that strong, integrated governance is key to a stable investment strategy so Trustees hold regular joint meetings with the Investment Committee to discuss investment risk collectively. The Chair of the Foundation chairs the Investment Committee, and Trustees appoint two independent experts to be members of the committee. A member of the Investment Committee sits on our Finance and Audit Committee to align the portfolio, risk appetite, financial planning and back-office functions.
8. We aim to earn our financial returns in a way that is pragmatic and consistent with our charitable purpose of advancing social well being in a diverse society. We expect our managers to know what they own, and why they own it. This leads us away from investing in businesses that are either unsustainable or seek to exploit vulnerable people.
9. Our primary measure of success is a return that at least matches over the long term the combination of inflation and our spending. We use an inflation-adjusted comparator to reassure ourselves that the long-term value of our endowment continues to maintain its purchasing power. This acts as a prompt to consider increasing (or decreasing) spending over five-year cycles. Secondary measures are based on markets and peer groups.
10. These principles are translated into the Financial Objectives and Investment Strategy.

## Summary of Financial Objectives and Investment Strategy

### 1. Financial objective

- 1.1. To have the ability to spend at a sustainable rate over the medium term (5 years +)
- 1.2. With the actual timing of expenditure being variable, driven by the Foundation's risk appetite and quality criteria;
- 1.3. Whilst seeking to maintain in real terms the value and purchasing power of the endowment in the longer term; and
- 1.4. And by reflecting our mission of advancing social well-being in how we invest.

### 2. Sustainable spending

- 2.1. We aim to spend 4.5% per annum of our long term inflation-linked benchmark.
- 2.2. We periodically review this benchmark when we set our future expenditure plans (most recently in October 2023).
- 2.3. We confirm our spending plans against an averaged volatility of +/- 16% around this benchmark.

### 3. Capital maintenance

- 3.1. Our long term objective is to maintain the value of the endowment at its December 2003 level, indexed for wage inflation
- 3.2. We periodically adjust this indexation to reflect the benchmark used for setting future expenditure plans
- 3.3. The 'preserved value' continues to be rooted in the December 2003 valuation (£188.3m).

### Investment Principles

#### 4. Decision-making and governance

- 4.1. The Investment Committee is responsible to the Trustees for investment decisions. It includes three Trustee members and two independent investment professionals as advisors (who serve for three year terms). The committee is supported by staff of the Foundation. It is advised by investment consultants (appointed by Trustees).
- 4.2. The committee appoints investment managers (and terminates their appointments), recommends to Trustees strategic asset allocations and reviews investment performance.
- 4.3. Investment management is delegated to authorised commercial discretionary managers, properly licensed by the FCA, whose mandates are reviewed regularly.

### 5. Investment objective

- 5.1. The Foundation requires a diversified portfolio which will provide the best return for an agreed measure of risk and liquidity. See Investment Beliefs.

### 6. Ethical and other restrictions

- 6.1. Managers must be engaged, know what they own, and why they own it. We avoid investing in businesses that are either unsustainable or seek to exploit vulnerable people
- 6.2. See full policy on Responsible Investing

### 7. Asset allocation and ranges

Asset Class	Target	Range
<i>Real Assets</i>		
Global Equities	65%	
Private Assets	25%	
<i>Total Real Assets</i>	<i>90%</i>	
Nominal assets	10%	8% - 12%
<i>Total assets</i>	<i>100%</i>	

### 8. Principal benchmarks

- 8.1. Principal measurement is against the Index of Capital Maintenance (see objective 2).
- 8.2. Investment performance will be assessed against total returns relative to a composite benchmark based on asset allocation at the beginning of each period.
- 8.3. Performance is also compared to an appropriate peer group index (currently ARC Steady Growth)
- 8.4. Individual manager benchmarks are set out below.

### 9. Manager Structure and benchmarks

Asset Class	Manager
<i>Real Assets</i>	
Global Equities	Legal & General, GMO, Harding Loevner, Metropolis, SpalInvest
Private Assets	Various illiquid funds
<i>Nominal Assets</i>	
Fixed Interest	Internally managed Gilts

Asset Class	Benchmark	Target
Total Equities	MSCI ACWI	+ 1%
Private Assets	MSCI ACWI	+ 3%
Fixed Interest	0 – 5yr ML Gilt index	-

### 10. Performance assessment

- 10.1. Performance is assessed in £GBP on rolling twelve quarter periods.
- 10.2. Performance targets are net of fees.

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