

Investment Sub Committee

Annual Investments Report to Council 31 July 2023



1. Executive Summary

It has been a year of review and positive change within Royal Holloway's investment policy and practice.

A thorough review was carried out during the year of the university's Statement of Investment Policy. This was undertaken in consultation with students, staff, the Investment Sub Committee, the university fund managers and external advisors.

As a result, the university has divested from all endowment investments in fossil fuel companies within its portfolio in recognition of its commitment to environmental sustainability, social justice and addressing the climate emergency. As at 31st July 2023, the university has zero exposure to organisations involved in the exploration, production, refining, storage and/or transportation of oil, gas and/or coal across its portfolio.

The new policy also has explicit, transparent, and detailed exclusions on armaments, gambling, adult entertainment, and tobacco.

As part of this process, external advisors were engaged to perform a review of the university's investment strategy and endowment investment performance over the last two years, including investment objectives, asset allocation, benchmarks, risk and return and Environmental, Social & Governance (ESG) factors. Their advice informed the university's policy and, in addition, changed the risk strategy employed by the fund managers with the aim of increasing potential returns.

In the coming year the Investment Sub Committee will continue to explore ways to maximise returns while maintaining the security of the underlying assets and complying with the revised Statement of Investment Policy.

2. Sustainability and target setting

The University is committed to sustainability within its endowment investments and the proactive allocation of sustainability-themed investments. Under the previous investment policy, targets were in three key areas; since divestment this has reduced to two.

- 1) Reduction of future emissions by focussing on absolute potential emissions (tons of CO₂e). This is a reserves-based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the endowment's equities allocation were burned. *Due to divestment from fossil fuels, this target has now been withdrawn.*
- 2) Reducing "exposure to carbon intensive companies", as measured by Weighted Average Carbon Intensity (WACI). This is an indicator of current climate-related risks facilitating

comparison across asset classes and across industry sectors, in the endowment's equities allocation.

- 3) Make initial investments in sustainability-themed investments. For example, in climate change mitigation, low carbon technology, social housing, sustainable infrastructure, energy efficiency and other opportunities.

Progress against these targets can be found at section 5 below.

3. Financial target setting

The university wishes to pursue an investment policy which provides capital growth with a medium level of risk over the longer term.

To this end the primary objective to achieve a total return, including dividends, interest, rent or other income, and capital appreciation, of CPI Inflation + 3.2% per annum net of fees, over 3-5 years.

3.1 Portfolio performance (net of fees) as at 31 July 2023 – total return basis

Performance to 31 st July 2023 (%pa)				
	1 year	3 years	5 years	Since 28/07/2015
Royal Holloway	-4.9%	+4.3%	+2.0%	+4.5%
CPI +3.2%	+10.2%	+9.6%	+7.7%	+6.7%
Greenbank Charity Risk Level 4 Benchmark*	+1.7%	+6.0%	+3.2%	+5.3%

* The formal benchmark of the portfolio changed from Risk Level 4 to Risk Level 5 during the period, though it was still Risk Level 4 for the majority of all the periods in the above table.

In September 2022, the UK government announced a 'growth plan' which contained a series of tax cuts and spending increases. This led to falls in the value of sterling and sharp increases in the yields on UK government debt (and falls in prices). The increases in government bond yields led to pension schemes needing to subscribe additional capital to their LDI investments and make fire sales of some of their property and other investments to fund these. The impact of sharply rising interest rates and pension fund selling led to significant falls in the values of commercial property and other illiquid investments around the turn of the calendar year, which impacted on the value of the investment portfolios holdings.

3.2 Income

As a charitable institution we have a duty to manage and administer our endowment funds appropriately and there are restrictions on our use of the endowment assets we hold. We use

the income generated from these assets each year to contribute towards our charitable purpose to support education and promote research for the public benefit.

Income from the portfolio for the year to 31 July 2023 was £1,532,411.

3.3 Investment portfolio and asset allocation¹

As at 31 July 2023 the total market value of the portfolio was £51,560k (2022: £55,769k).

Fund	Market value as at 31 July 2023 £000	Market value as at 31 July 2022 £000
Founders Endowment Fund	40,047	43,410
Scholarship Endowment Fund	7,572	8,087
General Endowment Fund	2,962	3,213
Hilda Martindale Endowment Fund	979	1,059
Total portfolio	51,560	55,769

The asset allocation as at 31 July 2023 was as follows:

		Asset allocation %
Liquidity	Cash	0.6
	UK government bonds	2.4
	Overseas government bonds	2.0
	High Quality Investment Grade	3.6
Equity-type risk	Fixed income	7.4
	UK equities	36.9
	North American Investments	18.3
	European Investments	7.1
	Asia Pacific Investments	1.6
	Emerging Market Investments	2.1
	Global equity funds	6.9
Diversifiers	Infrastructure Funds	6.1
	Property Funds	5.0
		100.0

4. Performance against ESG targets

4.1 Absolute Potential Emissions

This analyses the fossil fuel reserves of relevant holdings to calculate an estimate of the potential future emissions 'owned' by the portfolio via these. 'Ownership' is calculated on an equity basis, which is derived by calculating the percentage of a company's shares in issue held within the portfolio. This percentage is then multiplied by the company's total potential emissions to derive the potential emissions which can be ascribed to the portfolio holding. Analysis therefore only includes the equity portion of the portfolio.

¹ The source for the detailed analysis in this report is Rathbones

Potential emissions at the end of July 2023 represented 0% of the portfolio. This measure will no longer be used from 1 August 2023, due to the divestment from fossil fuel investments noted above, however the university will continue to look for the most effective way to set targets in line with our sustainability strategy and ESG objectives.

Performance against previous target:

1	The portfolio shall have no more than 5% of holdings with fossil fuel reserves	0% MET
2	The portfolio's potential emissions will be regularly benchmarked against the MSCI World indicator and are targeted to be less than half of MSCI World	MET

4.2 Weighted Average Carbon Intensity (WACI)

The weighted average carbon intensity method measures a portfolio's exposure to carbon-intensive companies based on CO₂ emissions per million pounds of sales, adjusted according to each holding's weighting within a portfolio.

This target was reviewed mid year after improved data quality led to a reduction in the portfolio's WACI. The target has been updated to a WACI of 85 by the end of 2025

Performance against target:

1	Target of 85 to be achieved by 2025	ON TRACK
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4.3 Making sustainably-themed investments

A method has been developed to map the portfolio's exposure to sustainable development themes, linked to the UN Sustainable Development Goals, and categorises holdings into one of four categories:

- A. Acts to avoid harm (a holding cannot become part of the portfolio unless it meets this criterion)
- B. Benefits people and/or planet
- C. Contributes to solutions; and
- C+ Contributes highly to solutions

Investments are assessed in terms of what they do and how they operate. The table below show the current balance across the portfolio as at 31 July 2023, and the substantial progress that has been made since December 2018. The proportion of holdings within C or C+ categories is now 10.5% (previously 1.31%).

	Dec-18	Jul-23
Cash	2.39%	0.62%
Other	45.85%	0.00%
A - Acts to avoid harm	24.96%	35.79%
B - Benefits people and/or planet	19.95%	53.10%
C - Contributes to solutions	1.31%	9.45%
C+ - Contributes highly to solutions	0%	1.03%

Performance against target

1	At least 95% of holdings will be in categories A-C	MET
2	The portfolio will achieve at least 15% of holdings in category C ("contributes to solutions") within 3-5 years from August 2021.	ON TRACK

6. Engagement activities

Our investment manager's engagements include a range of issues working towards environmental and social change across the areas below. A report is provided at each meeting of the Investment Sub Committee detailing specific engagement activities undertaken each quarter.

Habitats and ecosystems

Preserve and enhance natural systems by encouraging companies to have a net positive impact on biodiversity.



Resource efficiency

Promote a circular economy that supports sustainable levels of consumption.



Decent work

Ensure proper emphasis on the quality of jobs being created and maintained alongside their quantity.



Inclusive economies

Promote an equitable economy in which there is expanded opportunity for shared prosperity.



Energy and climate

Support decarbonisation aligned to the goals of the Paris Agreement on climate change.



Health and wellbeing

Ensure companies do not undermine the health of their beneficiaries and encourage improved health outcomes.



Innovation and infrastructure

Support infrastructure that is fit to achieve broader planetary and societal goals.



Resilient institutions

Strengthen well-functioning institutions that protect the rule of law and fundamental rights.



Royal Holloway & Bedford New College Endowments Holdings as at 31 July 2023

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SECURITY NAME	VALUATION GROUP
TREASURY 0% T-Bill 29/08/2023	UK Conventional Government Bonds
TREASURY 5% Stock 7/03/2025	UK Conventional Government Bonds
TREASURY 7/8% Green Gilt 31/07/2033	UK Conventional Government Bonds
ABRDN OEIC V Gbl Index Lkd Bond S Instl Inc	Overseas Index Linked Govt Bonds
DEUTSCHE BAHN FINANCE 3.125% Gtd 24/07/2026	UK Inv Grade Bonds - Higher Quality
EURO INVESTMENT BANK 3.75% MTN 7/12/2027	UK Inv Grade Bonds - Higher Quality
DIAGEO FINANCE PLC 2.375% Gtd Snr 8/06/2028	UK Inv Grade Bonds - Higher Quality
LLOYDS BANKING GROUP PLC 6.5% Snr EMTN 17/09/2040	UK Inv Grade Bonds - Higher Quality
A2D FUNDING II PLC 4.5% Bonds 30/09/2026	UK Investment Grade Bonds
NATIONAL GRID ELEC DIST 5.875% Snr 25/03/2027	UK Investment Grade Bonds
RABOBANK NEDERLAND 4.55% Snr MTN 30/08/2029	UK Investment Grade Bonds
AVIVA PLC 6.125% Sub Ord Bds 14/11/36	UK Investment Grade Bonds
RATHBONE UNIT TRUST MGMT Ethical Bond S Inc (GBP)	UK Investment Grade Bonds
ROYAL LONDON UNIT TRUST MGRS Ethical Bond Z Inc	UK Investment Grade Bonds
MIROVA FUNDS Global Green Bd HSIA Acc (GBP)	Overseas Investment Grade Bonds
FDM GROUP HOLDINGS PLC 1p Ordinary Shares	Software & Computer Services
VODAFONE GROUP PLC USD0.2095238 Ordinary Shares	Telecommunications Service Provider
SMITH & NEPHEW PLC USD0.20 Ordinary Shares	Medical Equipment & Services
ASTRAZENECA PLC USD0.25 Ordinary Shares	Pharmaceuticals & Biotechnology
DECHRA PHARMACEUTICALS PLC 1p Ordinary Shares	Pharmaceuticals & Biotechnology
GSK PLC 31 1/4p Ordinary Shares	Pharmaceuticals & Biotechnology
HALEON PLC 1p Ordinary Shares	Pharmaceuticals & Biotechnology
LLOYDS BANKING GROUP PLC 10p Ordinary Shares	Banks
IP GROUP PLC 2p Ordinary Shares	Investment Banking & Brokerage
M&G PLC 5p Ordinary Shares	Investment Banking & Brokerage
LEGAL & GENERAL GROUP PLC 2 1/2p Ordinary Shares	Life Insurance
PRUDENTIAL PLC 5p Ordinary Shares	Life Insurance
HOME REIT PLC 1p Ordinary Shares	Real Estate Investment Trusts
LONDONMETRIC PROPERTY PLC 10p Ordinary Shares	Real Estate Investment Trusts
BELLWAY PLC 12 1/2p Ordinary Shares	Household Goods & Home Construction
RELX PLC 14.44p Ordinary Shares	Media
DIAGEO PLC 28 101/108p Ordinary Shares	Beverages
TESCO PLC 6.333333p Ordinary Shares	Personal Care Drug & Grocery Store
UNILEVER PLC 3 1/9p Ordinary Shares	Personal Care Drug & Grocery Store

The value of investments and the income arising from them may fall as well as rise and you might get back less than you originally invested.

GENUIT GROUP PLC 0.1p Ordinary Shares	Construction & Materials
HALMA PLC 10p Ordinary Shares	Electronic & Electrical Equipment
COATS GROUP PLC 5p Ordinary Shares	General Industrials
SMITH (DS) PLC 10p Ordinary Shares	General Industrials
HILL & SMITH PLC 25p Ordinary Shares	Industrial Engineering
SPIRAX-SARCO ENGINEERING PLC 26.9230769p Ordinary Shares	Industrial Engineering
EXPERIAN PLC USD0.10 Ordinary Shares	Industrial Support Services
JOHNSON MATTHEY #1.101698 Ordinary Shares	Chemicals
SSE PLC 50p Ordinary Shares	Electricity
NATIONAL GRID PLC 12.431289p Ordinary Shares	Gas Water & Multi-utilities
RENEWI PLC #1 Ordinary Shares	Waste & Disposal Services
HYDROGENONE CAPITAL GROWTH PLC 1p Ordinary Shares	UK Investment Companies
SCHRODER BSC SOCIAL IMPACT TST Ordinary Shares	UK Investment Companies
ACCENTURE PLC New A Class Shares	North American Investments
APTIV PLC USD0.01 Common Stock	North American Investments
AUTODESK INC NPV Common Stock	North American Investments
BROWN ADVISORY FUNDS US Sustainable Growth C Inc	North American Investments
DEXCOM INC USD0.001 Common Stock	North American Investments
EDWARDS LIFESCIENCES CORP USD1 Common Stock	North American Investments
ENPHASE ENERGY INC USD0.00001 Common Stock	North American Investments
FRANKLIN TEMPLETON GBL FDS PLC Clearbridge US Eqty Sust S Hgd	North American Investments
HANNON ARMSTRONG SUST INFRA USD0.01 Common Stock	North American Investments
JOHNSON CONTROLS INTL USD1 Common Stock	North American Investments
MICROSOFT CORP USD 0.00000625 Common Stock	North American Investments
REPUBLIC SERVICES INC USD0.01 Common Stock	North American Investments
STERIS PLC USD0.001 Ordinary Shares	North American Investments
THERMO FISHER SCIENTIFIC INC USD1 Common Stock	North American Investments
VISA INC USD0.0001 Common Stock	North American Investments
XYLEM INC USD0.01 Common Stock	North American Investments
ALFEN NV EUR0.10 Shares	European Investments
ASML HOLDINGS NV EUR0.09 Shares (Post Split)	European Investments
ASSA ABLOY NPV Ser B Shares	European Investments
BOLIDEN AB NPV Shares (Post Split)	European Investments
LIONTRUST INVESTMENTS LTD Sust Future Eurp Growth 2 Acc	European Investments
ORSTED AS DKK10 Shares	European Investments
ROCHE HOLDINGS AG Genusscheine NPV Shares	European Investments
SWISS RE AG CHF0.1 Shares	European Investments
TOMRA SYSTEMS ASA NOK0.50 Shares (Post Split)	European Investments
VESTAS WIND SYSTEMS DKK0.20 Shares (Post Split)	European Investments
STEWART INVESTORS Asia Pacific Sust B Acc (GBP)	Asia Pacific Investments
FIRST SENTIER INVESTORS (UK) Stewart Gbl EM Sustain B Acc	Emerging Market Investments
IMPAX FUNDS (IRE) PLC Environmental Mkts X Acc (GBP)	Global Investments
JANUS HENDERSON INVESTMENTS Gbl Sustainable Equity I Inc	Global Investments

The value of investments and the income arising from them may fall as well as rise and you might get back less than you originally invested.

Greenbank

September 2023

PICTET ASSET MGMT Gbl Environment Opps J DY Inc	Global Investments
SCHRODER INVESTMENT MGMT Global Energy Transition Q Inc	Global Investments
DIGITAL 9 INFRASTRUCTURE PLC NPV Ordinary Shares	Infrastructure Funds
ECOFIN US RENEW INFRASTRUCTURE USD0.01 Ord Shs (GBP)	Infrastructure Funds
FORESIGHT SUSTAINABLE FORESTRY 1p Ordinary Shares	Infrastructure Funds
GCP INFRASTRUCTURE INV LTD 1p Ordinary Shares	Infrastructure Funds
GREENCOAT UK WIND PLC 1p Ordinary Shares	Infrastructure Funds
OCTOPUS RENEW INFRA TRUST PLC 1p Ordinary Shares	Infrastructure Funds
RENEWABLES INFRASTRUCTURE GRP NPV Ordinary Shares	Infrastructure Funds
CHARITIES PROPERTY FUND Property Fund Income	Property Funds
MAYFAIR CAPITAL INVEST MGMT Property Inc Trust For Charity	Property Funds

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Additional information

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Information valid at date of presentation.

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