Code: QA327
Title: Investment Strategy
Date: 24th June 2021
Approval: UMT-FRC-Údarás na hOllscoile

1.0 Purpose
To ensure that all University funds are managed in line with best practice and that the University's risk and liquidity appetite is fully considered prior to the investment of funds.

2.0 Description
This policy sets out the general principles underlying the investment strategy of NUI Galway ("the University").

2.1 The University's overall investment objectives and appetite for investment risk are the responsibility of Údarás na hOllscoile. In this regard, the Finance Resource Committee, the Investment Sub-committee and its Investment Advisor advise Údarás regarding investment strategy and its implementation.

2.2 The University segregates its **funds** into two key areas:

- Allocated Funds: This portfolio will be used to fund specific projects or for working capital purposes. Funds are invested in such a way as to prioritise capital security and shorter-term liquidity, ensuring that funds are available to be drawn down, as they are needed. Expected returns will reflect the level of risk involved.
- Investible funds: This portfolio is funds held in excess of allocated Funds above. These funds are expected to earn an income for the University and preserve capital over a medium to longer term.

2.3 **Investment Advisors and Manager(s)**: The University will appoint investment Advisors and Managers, which it believes to have particular strengths in the management of the various asset classes that reflect the asset allocation approach to be adopted. The minimum requirements of any appointed Investment Advisor and Manager will include the following:

- Ability to demonstrate their compliance with all regulatory requirements, and their possession of all necessary qualifications and authorisations to provide investment management services;
- Have a demonstrable long term track record of performance;
- Adhere to the University Investment policy and achieve the agreed investment objectives, and
- Update the University with quarterly valuation of investments and issue confirmations for all investments made.
- **Investment Advisors** are appointed following a competitive procurement process. They will advise the Investment Sub-committee on the University's investment strategy and

Investment Manager(s) selection. They will also provide oversight of the Investment Managers(s) and advise the committee on appropriate measurement benchmarks.

- **Investment Manager(s)** will be appointed following a 'beauty parade' and advice provided by the Investment Advisers taking into account the University's investment strategy and in particular its risk/reward appetite, desired portfolio asset classes, fund diversification and ethical considerations. They will have full discretion over the day-to-day management of the investible funds.

2.4 The **investment strategy** reflects the University's decision regarding specific asset classes and relative value within the overall portfolio. To allow for the risk of investment volatility, the University will target investment in a diversified portfolio of investments, with the objective of maximising longer-term returns within agreed risk tolerances. Actual returns and return volatility may vary from expectations and return objectives across short periods. Flexibility will be retained in respect to making periodic changes to the Portfolio's asset allocation. Changes to the Portfolio's asset allocation will only be implemented in the event of material changes to the Fund, to the assumptions underlying Fund distribution policies, and/or to the capital markets and asset classes in which the Portfolio invests. The long-term objective is that Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of the fund equity investments will be to maximise the long-term real growth of portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments.

2.5 **Cash investments** will, under normal circumstances, only be considered as a temporary Portfolio holding, and will be used to fund liquidity needs or to facilitate a planned program into investments in either or both of the equity and fixed income asset classes.

2.6 **Non-traditional Investments:** To the extent the Portfolio holds investments in non-traditional, illiquid, and/or nonmarketable securities including (but not limited to) venture capital, hedge funds, and property investments, these assets will be treated collectively as alternative investments for purposes of measuring the Portfolio's asset allocation. While not specifically considered within this policy, typical alternative investments comprise no more than 10% of total Portfolio assets and, to the extent they are owned, will proportionately reduce target allocations to the primary asset classes itemised above.

2.7 **Ethical Investment considerations:** The University will only appoint managers who are signatories to the United Nations Principles of Responsible Investment (UN PRI).

2.8 **Diversification:** Current investment best practice states that diversification across and within asset classes and within Geographical areas are the primary means to avoid undue risk of large losses over longer periods. To protect the Portfolio against unfavourable outcomes within an asset class due to the assumption of large risks, this policy requires that reasonable precautions be taken to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- With the exception of fixed income investments explicitly guaranteed by AA-rated (or higher) Government issuers, no single investment security shall represent more than 5% of total Portfolio assets.
- With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment

fund shall comprise more than 20% of total Portfolio assets. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).

2.9 **Risk:** The following investment risks will be considered in assessing the appropriateness of the investment strategy. A specific review of the risks below will be reviewed on an annual basis.

- Investment Return Risk: The risk that the investment allocation employed does not perform in line with expectations. The Investment Advisor will regularly review the overall investment strategy, comparing experienced returns with expectations, and considering whether any changes in the University's requirements or the market environment require amendments to the investment strategy.
- Investment Manager Risk: The risk that the manager/s chosen to implement the investment strategy do not perform in line with the goals set for them – whether to match the benchmark (passive management) or to outperform it (active management). The Investment Advisor will review the performance of investment funds against the targets set for them at least twice per year. Such reviews will include the analysis of investment reports; long-term performance trends; events at the investment manager (e.g. ownership / staff turnover); and will involve participation from the Investment Sub-Committee.
- Cash Flow Risk: The risk that funds are required by the University at a time when market conditions have resulted in an unrealised investment loss. The Investment Sub-Committee will ensure that a reasonable portion of the investment assets are invested in cash deposits in order that short-term cash requirements can be fulfilled without the forced sale of long-term investments.
- Credit risk: The possibility that a counterparty will default in meeting its obligations. The Investment Advisor will regularly review the University's exposure to individual institutions; and will take steps to diversify credit risk where exposure to a particular institution is deemed to be too high.
- Concentration risk: The risk that the performance of any single asset class or single investment that constituted a significant proportion of the assets would disproportionately influence the University's ability to meet its objectives. The Investment Advisor will regularly review the asset allocation of the overall investment strategy to ensure that no one asset class or investment will have a disproportionate impact on the strategy performance. The University's allocation to investment managers and funds will be set with the aim of mitigating this risk at individual manager level.
- Inflation risk: The risk that investment performance does not keep pace with inflation: The Investment Advisor will set the investment strategy in terms of an inflation plus target, as outlined above. The strategy will include investments that, over the long term, are expected to provide returns above inflation. To achieve those returns, funds may be exposed to a greater level of volatility than would be the case for deposit type investments. The Investment Sub-Committee will review the volatility as well as the absolute performance of individual funds and the overall strategy.
- Volatility and Return: In order to meet specific objectives, the University may need to invest in assets from which there is a greater likelihood of volatility (the potential ups and downs that a fund may experience over time) in returns relative to market movements. Volatility is a measure of how the fund performance is different from the average return of that fund over a period. The bigger the difference from the average return, the riskier

the fund. The Committee will take advice on this matter and consider carefully the implications of adopting different levels of risk.

- Tax and Accounting Risk: The Investment Sub-Committee will consider the tax and accounting implications of proposed investment structures, in order not to be disadvantaged.

3.0 Responsibilities

Title	Responsibility
Bursar	Policy Owner
Údarás na hOllscoile	Approve policy and strategic investment decisions and monitor implementation of same.
Finance Resource Committee (FRC)	o Recommend policy, strategic investment decisions and appointment of Investment Advisors and Managers to Údarás na hOllscoile. o The FRC is responsible for the appointment of the Investment Advisor & Manager(s), and monitoring of the overall performance of the investment portfolios. o The FRC will at least annually review the continuing suitability of these arrangements and of the appointed Investment Advisor & Manager(s), and following this review may from time to time make adjustments to the asset mix, Advisor & Manager line-up and the degree of active management.
FRC Investment Sub- Committee	o Procure Investment Advisors through a competitive process and recommend their appointment to FRC. o Select Investment Managers following a beauty parade and recommend their appointment to FRC. o Develop the University's investment strategy with advice from the Investment Advisors and consideration of the University's risk return appetite. o The Committee will at least annually review the range of expected returns, level of risk and appropriate benchmarks. o The committee will periodically review the Investment Advisor and the routine monitoring of the Investment Managers & Portfolio.
Pensions & Investment Manager	o Manage allocated funds in line with approved and detailed University Treasury Management procedures. Both the Bursar and the Investment Sub-committee monitor this. o In conjunction with the Bursar and the Investment Sub-committee, monitor investible funds. The management of Investible funds including the day-to-day investment decisions are delegated to qualified and authorised fund managers. Management

	agreements/investment mandates will specify how the investment managers invest University funds, and will require the managers to ensure that investments are suitable and appropriately diversified. ○ Act as Secretary to the Investment Sub-Committee.
Investment Advisor	○ Ensure that the investment strategy adopted by the University is designed to meet the University objectives. This function involves the monitoring of the overall strategy and its alignment with objectives. ○ Assist the Investment Sub-Committee in the selection of suitable investment managers. ○ Responsible for the oversight of the Investment Managers' implementation of the mandates, and for the recommendation of a review process if a Manager or Fund is not performing satisfactorily. ○ Report to the Investment Sub-Committee on a quarterly basis analysing individual manger returns and value and return of complete portfolio.
Investment Managers	○ Adhere to the University Investment policy and achieve the agreed investment objectives. ○ Update the University with quarterly valuation of investments and issue confirmations for all investments made.

4.0 Approvals

The **signatures** required to authorise the opening of an account with a fund manager in the name of the University for purposes of investment of University funds are as per Treasury management policy QA300.

5.0 Related Documents

QA300 Treasury Management