The Kennedy Trust for Rheumatology Research

Investment Policy

Version Control

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The Kennedy Trust for Rheumatology Research

Investment Policy

1. Introduction

Founded in 1965, The Kennedy Trust for Rheumatology Research (“the Trust”) is a long-established and successful charity that has accumulated substantial reserves from the proceeds of patents from treatments developed for the alleviation of the symptoms of rheumatic and musculoskeletal disease. The Trust was instrumental in the establishment of the Kennedy Institute of Rheumatology at the University of Oxford. A significant proportion of the Trust’s grant giving is to provide support to this centre, along with an increasing proportion to other institutions.

The Trust’s objective is for its investment strategy to provide sufficient return to cover its grant giving and to preserve the value of the Trust’s assets in real terms. The Trust relies solely on portfolio income and capital for grant giving. The Trust carries out no fundraising activities.

This Investment Policy Statement for the Trust provides a framework for the Finance and Investment Committee against which to manage the Trust’s assets. These assets may be used for the generation of income and capital gain for distribution in accordance with the Trust’s objectives. Excluded from this Statement are assets that are used by the Trust for defined purposes, and any investment properties.

The Trustees delegate certain investment decisions to the Finance and Investment Committee (“FIC”), which sets out the Trust’s investment strategy and regularly monitors performance.

A Fiduciary Manager (“FM”) is responsible for day-to-day portfolio management, manager selection, all investment withdrawals, rebalancing, and tactical asset allocation for liquid assets. The FM presents proposals for approval to the FIC for private market investments and changes to the strategy. The FIC operates within Terms of Reference, which are set by the Board of Trustees. The FIC takes professional external advice from time to time on specific portions of the portfolio and for periodic oversight of the FM.

2. Purpose

The purpose of this Statement is to ensure that:

- Investment objectives, beliefs, principles, and policies are clearly articulated.
- Control mechanisms and management procedures are robust, subject to scrutiny and reviewed frequently.
- Risk is suitably managed.

The FIC considers this Statement when appointing managers and selecting pooled funds; and expects it to be reflected by the Trust’s investment managers wherever it is possible and practical to do so.

The Trustees and FIC developed this Statement following a collaborative process with its advisors and other stakeholders.

This Statement adheres to the guidance from the Charities Commission as laid down in CC14.

3. Fundamental investment beliefs

The beliefs underpinning the principles that the Trustees follow are set out below. These beliefs are expected to be reasonably durable over time but will be subject to periodic review.

a) A total return approach to investing has been adopted because it is considered appropriate to best meet the Trust's objectives.

b) Risk and return are related: return requires risk but risk does not guarantee return.

c) The Trustees are willing to accept shorter-term volatility and illiquidity within the portfolio, given its position as a long-term investor.

d) Diversification within and between investment asset classes will typically help serve to reduce the volatility of investment returns.

e) The Trustees are not averse to designing a strategy with an element of complexity, provided it offers attractive diversification and returns.

f) The Trustees will delegate asset implementation decisions to the Trust's FM, who will make recommendations for approval by the FIC.

g) While the FIC are focused on realising value for money in terms of asset management fees within the portfolio, the FIC focuses on net returns after fees and is willing to countenance higher performance fees when selecting illiquid and alternative assets if the performance is likely to justify them.

h) The Trustees takes responsible investment, ESG risk factors (including climate change) and company stewardship into consideration when setting their investment strategy and executing investment decisions.

i) Where adverse exposure is deemed material, the following factors are considered grounds for manager engagement and possible exclusion:

1. Tobacco
   The Trustees have determined exposure to tobacco should carry a degree of concern, understanding that tobacco has additional adverse impacts to rheumatic and related musculoskeletal and immunological diseases. As far as practicably possible, given the Trust invests in pooled funds, the Trust and its FM will take all reasonable steps to ensure that tobacco exposure is kept to a minimum.

2. The Trustees accept that it may not be possible to find pooled investment funds for all asset classes which take into account all factors which the Trustees consider important, or which exclude all investments which the Trustees would prefer to avoid. In this situation the Trustees adopt a pragmatic approach, either investing on a segregated basis or seeking to find investment funds in which the allocations to such holdings are not material, with analysis being conducted before allocating to a new investment fund and regular monitoring of their funds' holdings.

4. Investment objectives

The Trust's principal objective for the long-term portfolio is to achieve a total return on invested charitable funds of UK CPI+3% pa over the longer term, through a balanced portfolio with sufficient liquidity to meet short term spending commitments and hence avoid the forced sale of long-term and less liquid assets.

The Trust aims for the portfolio to provide sufficient excess returns to cover its grant giving and to preserve the real value of the Trust's assets over the long-term.

The projected average spend over the next 10 years from the date of this Statement is approximately £10.5m pa in nominal terms (non-inflation adjusted), and subject to the Trust's overall strategy. This can be taken in the form of portfolio income and/or capital.

5. Investment Managers

Current Investment Managers and Advisors:
J.P. Morgan
Savills
Mayfair Pitch
M&G
LCP

Thorough due diligence is undertaken before the appointment of any manager and a mandate outlines the investment powers; sets out the manager's responsibilities, documents fee arrangements; and sets out return objectives.

Managers' performance, strategy and organisation are closely monitored, through quarterly reports. Quarterly meetings are held with J.P. Morgan with the Finance and Investment Committee and an annual meeting with the Board of Trustees. LCP carry out an annual review of Savills and Mayfair Pitch.

6. Risks

There are several investment risks that the Trustees believe are important to manage and monitor. These include but are not limited to the following.

Inadequate returns

A key objective of the Trustees is that, over the long-term, the Trust should generate its target return so that it has adequate assets to meet its outgoings as they fall due. Therefore, the Trustees, with support from their FM, invest the assets of the Trust to produce an expected long-term return in line with the investment objective.

There is also a risk that the Trust's assets underperform in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustees on a regular basis.

Lack of diversification

This is the risk that failure of a particular investment, or the more general poor performance of a given investment type, could materially adversely affect the Trust's assets. The Trustees believe that the Trust's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Trust's investment arrangements and is monitored by the Trustees on a regular basis.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

Illiquidity / marketability

This is the risk that the Trustees are unable to realise assets to meet charitable expenditure as it falls due, or that the Trust will become a forced seller of assets to meet charitable expenditure or to conduct de-risking or rebalancing, in unfavourable market conditions.

The Trustees manage this risk by maintaining an appropriate degree of liquidity to meet known spending commitments and potential financial risks through:

- maintaining a prudent level of liquid assets and cash reserves in the portfolio;
- reviewing multi-year financial projections;
- considering the financial impact of risk scenarios and how the reserves policy of the Trust aims to manage these; and
- reviewing the needs of the annual budget.

Environmental, social and governance ("ESG")

ESG factors are sources of risk (and opportunities) to the Trust's investments, some of which could be financially material, over both the short and longer term. These include risks relating to systemic factors (such as climate change and pandemics) and other business specific factors (such as cyber-security, pollution, employee welfare, unsustainable business practices and more generally unsound corporate governance). The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

Credit

The Trust invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment manager and custodian of those funds.

Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ring-fenced from the investment managers, the regulatory environment in which the pooled fund managers operate and diversification of the Trust's investments across a number of pooled funds.

Indirect credit risk exists in the form of exposure to corporate bonds and other debt instruments. This is addressed by the selection of suitable managers for the role of security selection, monitoring and ensuring diversification.

Currency

The Trust is subject to currency risk because a significant proportion of the Trust's investments are held in overseas markets. The Trustees consider the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure is not excessive and provides some diversification benefit to a long-term investor.

The exposure to foreign currencies within the funds will vary over time as the managers change the underlying investments, but it is not expected to be a material driver of returns over the longer term. Decisions about the exposure to foreign currencies within the funds held are at the discretion of the appointed fund managers, subject to the terms of appointment agreed with the Trustees.

Assets backing nearer term commitments are held in Sterling.

7. Voting and engagement

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees seek to appoint managers that have robust stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees review how these are implemented in practice.

8. Benchmarks

The real value of investment income and capital of the long-term portfolio is measured against the Consumer Price Index ("CPI"), as this is the measure which the Trustees must use to maintain the capital of the Trust in real terms.

For the purposes of measuring and monitoring the performance of each portfolio, investment managers typically monitor performance against a benchmark index.

Review of this Statement

The Trustees will review the Investment Policy Statement biennially and in response to any material change to the affairs of the Trust.

If there are any matters that require urgent attention, these will be presented to the FIC as appropriate.