



Investment Policy

December 2023

Policy Reference Information

Status	Approved
Author	Jane Ferguson
Approval	Trustees
Date of Last Review	December 2023
Date of Next Formal Review	December 2024

Related Policies

Policy Title	
Reserves Policy	

Introduction

NHS Lothian Charity is constituted as a corporate trustee body for Lothian Health Board. Its purpose is to invest in projects which promote better physical and mental health and wellbeing for the people of Edinburgh and the Lothians.

The financial objective of NHS Lothian Charity is to maintain the real value of the endowment over the long term, and at the same time generate a stable and sustainable income to support expenditure on charitable objects: i.e. grantmaking and programme delivery, and governance and management. NHS Lothian Charity does this through prudent management of its investment assets and by raising money through fundraising and from legacies.

NHS Lothian Charity has approximately £85m of investment assets, including c£1.2m in direct investment property. The Charity has annual income from investments and donations and legacies of c£5m.

NHS Lothian Charity's policy is to spend 5% of its General Funds annually, and encourage charitable expenditure from the many specific funds, indicative of the particular speciality, department, ward or research area they support.

The Charity's reserves policy is to hold investment reserves of 20% of the valuation of the investment portfolio to manage the impact of valuation changes on the capacity of the Charity to support expenditure on grants.

The Trustees' power of investment is governed by the Charities and Trustee Investment (Scotland) Act 2005. This confers a general power of investment and in addition requires the Trustees to:

- Invest in a diversified range of suitable instruments
- From time to time to review the investments
- Consider the need for advice.

Further, the Act provides a default power to appoint an appropriate nominee (ie an investment manager) for the purpose of investment.

The governing document of NHS Lothian Charity (the National Health Service (Scotland) Act 1978) makes no additional specific provision for investments.

The Charity's Trustees have delegated oversight of investment matters to the Investment Committee. Investment management is delegated to an authorised professional investment manager, regulated by the FSA.

Definitions

Assets: everything the Charity owns (heritable property, money, investments).

Benchmarking: measuring investment performance by comparing against a comparable index or target.

Total return: the amount of value an investor earns from a security over a specific period, combining income and capital.

Capital Growth: an increase in the value of an asset or investment over time.

Income / Yield: earnings generated and realised on an investment over a period of time.

Capital Value: the value of an asset or investment.

Risk: the chance that an outcome or investment's actual gains will differ from an expected outcome or return.

Negative Screening/Avoidance/Exclusion: excluding companies from investment consideration based on social or environmental criteria.

ESG: Environmental, Social and Governance.

Liquidity: the ease with which an asset or security can be converted into ready cash without affecting its market price.

Portfolio: a collection of different types of financial investments (eg stocks, bonds, commodities, cash).

Ethos Statement

NHS Lothian Charity’s vision is: Making healthcare better, together. We are here to help NHS Lothian provide outstanding care and support for its patients and their families. We help create opportunities, enable innovation and transform healthcare for all our communities. Our expertise, experience and resources mean we can target support that helps us achieve our mission of having a positive impact on health and wellbeing across Edinburgh and the Lothians.

We also believe that responsible business practices are essential for delivering this mission and, for this reason, we ensure all our investments adhere to a suitable standard on environmental, social and governance grounds, whilst contributing to our overall financial objectives. We combine responsible, sustainable and impact-driven investments that aim for both a sustainable financial return and a measurable positive impact on health. Our philanthropic activities aim to deliver positive impact.

Our spectrum of approaches

Category	Responsible	Sustainable	Impact-driven	Philanthropic
Funds allocated	£71m	£15m	Planned £3.5m	£
Strategy	Main Investment Portfolio	Charity Sustainable Multi-Asset Fund	Impact Private Assets	Charitable Spend
Intention	Maximises financial returns without contradicting the charitable mission			
		Maximises financial returns and supports sustainability		
			Maximises financial returns while delivering positive impact	
				Maximises impact in line with the charitable mission

As an investor, we choose not to invest directly in any companies involved in tobacco or alcohol production, or gambling-related companies, due to their negative impact on health and we screen the underlying securities of pooled funds to ensure no more than 5% of exposure. We also recognise that we can support businesses which further our charitable mission and therefore include an allocation to investments with a focus on healthcare, innovation and wellbeing within our portfolio.

Furthermore, we recognise the existential threat posed to human health by climate change and have thus implemented a climate strategy which excludes the worst contributors to global emissions and proactively invests in climate solutions. In 2022, we formally excluded

fossil fuels in our investment policy, having gradually divested from coal, oil and gas over the previous decade. In 2023 we signed up to the Funder Commitment on Climate Change.

As a long-term investor, we have agreed an overarching target to align our investments with the 2015 Paris Agreement, thereby committing to help limit temperature rises to no more than 1.5°C by 2050. We have committed to achieve net zero in our investment portfolio by 2050, with the expectation that all of our strategies and pooled funds will be on a pathway to achieving net zero by 2040 (based on the Net Zero Investment Framework alignment methodology). As an interim target, we expect all of our listed equity and credit strategies and pooled funds to have committed to aligning to net zero by 2030. We intend to honour this commitment by avoiding assets with the very worst climate credentials, ensuring our Investment Managers are engaging with our underlying investments, and actively allocating to climate solutions. We will continually review the policy and targets in light of developments, with an ambition to bringing the target date and scope forward as methodologies evolve and the investment opportunity increases, whilst balancing return objectives.

1. Nature of Funds

- 1.1. The funds are in the form of expendable endowment and the Trustees are able to use both income and capital for use in charitable purposes.

2. Investment Objectives

- 2.1. The investment objective is to maximise the “total return” (i.e. aiming to achieve an investment return through both income and capital growth) within moderate parameters of risk, and to maintain the real capital value of the portfolio over the long term. There is no set share of the components within the total return.
- 2.2. The investment target is to achieve an annual rate of return (i.e. incorporating an allowance for inflation) of CPI inflation plus 4% in order to maintain the real capital value of the endowment over the long term.
- 2.3. The Trustees have therefore agreed not to set a specific annual income target.

3. Risk

Attitude to Risk

- 3.1 The Trustees place a high priority on maintaining the real value of the portfolio over the long term and have agreed to a moderate tolerance of risk. Trustees accept that at times this will mean accepting short-or medium-term declines in capital values.
- 3.2 NHS Lothian Charity carries a cash reserve in its balance sheet sufficient to meet normal expenditure requirements for at least 6 months.
- 3.3 NHS Lothian Charity's assets can be invested widely and should be diversified by asset class, by region and by security. Asset classes could include cash, bonds, equities, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Charity.
- 3.4 The Trustees have considered the cost and risk implications of constructing a portfolio from a blend of directly held securities and pooled funds and have concluded that this route is appropriate given the Charity's specific requirements, particularly with respect to transparency regarding adherence to the ethical and responsible investment.
- 3.5 The Investment Committee are charged with agreeing a suitable asset allocation strategy with the investment managers, which is set so as to achieve the Charity's overall investment objective.
- 3.6 The Trustees have agreed a benchmark allocation strategy which consists of the following asset classes and proportions, measured against the relevant market index, with the range tolerance for holdings in each asset class shown below.

Asset Class	Strategic Weightings %	Tactical Ranges %
Global Equities	60.0	40% - 70%
Bonds/Fixed Income	20.0	10% - 30%
Absolute Return/Alternatives *	20.0	10% - 30%
Cash	-	0% - 5%
Total	100.0	
Expected Return	inflation +4% (CPI +4%)	
Expected Volatility/Risk (3-5 yrs.)	13.2% ppa	

* Non-Absolute Return Funds can represent up to 10% with a maximum exposure of 2.5% for each holding at the time of investment.

- 3.7 Cash awaiting investment or disbursement in accordance with the Trustees' policies may be held as part of the portfolio within the benchmark ranges set out above. Any such cash is to be held on deposit or within liquidity funds so as to obtain the highest rate of return consistent with appropriate credit and liquidity requirements.

Currency

- 3.8 The base currency of the investment portfolio is sterling.

Credit Risk

- 3.9 NHS Lothian Charity's cash balances should be deposited with reputable institutions with high credit ratings. Use of money market liquidity funds is permitted where the underlying securities have a high level of diversification and average credit rating.

4. Liquidity Requirements

- 4.1 While Trustees have not set a specific annual income target, as an important component of the operational activities, trustees request monthly income transfers.
- 4.2 In order to fulfil their grantmaking strategy, the Trustees have agreed to an annual spending rule of 5% of the General Fund capital assets (based on a smoothing 3-year average valuation).
- 4.3 Beyond this, the Trustees do not anticipate regular withdrawals of capital. The Trustees will advise the fund managers if any drawdown is required or anticipated, and if at all possible will give at least six months' notice of any capital withdrawal. The Trustees understand the possible detrimental consequences of making withdrawals at short notice.

5. Time Horizon

- 5.1 NHS Lothian Charity is expected to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.
- 5.2 NHS Lothian Charity can adopt a long-term investment time horizon.

6. Ethical Investment

Restrictions

6.1 The Trustees have agreed to the following investment restrictions, which they believe would be in direct conflict with the Charity's objectives:

- **Arms:** No direct investments in companies involved in the manufacture of chemical or biological weapons and related systems or components and from the production of nuclear weapons. Also includes any companies that have any industry tie to cluster munitions; the manufacture of landmines; and the production of depleted uranium weapons, ammunition, and armour. Screened at 0% of revenue.
- **Arms:** No direct investments in weapons systems, components, support systems and from manufacture or retail of civilian firearms and ammunition. Screened at 10% of revenue.
- **Alcohol:** No direct investments in companies involved in the manufacture, distribution, retail, licensing or supply of alcoholic products. Screened at 10% of revenue.
- **Tobacco:** No direct investments in companies involved in the production, distribution, licensing, retail or supply of tobacco products. Screened at 10% of revenue.
- **Fossil Fuels:** No direct investments in companies involved in the extraction, production and refining of coal, oil and gas. Screened at 10% of revenue.
- **Gambling:** No direct investments in companies involved in gambling activities. Screened at 10% of revenue.

The underlying securities of pooled funds will be screened prior to acquisition for exposure to **tobacco, alcohol, armaments, fossil fuels and gambling** screened at 10% of revenues, and will only be invested in if these represent less than 5% of the overall assets of the relevant fund.

Pooled funds' tolerance will be screened every six months.

ESG factors and Active Stewardship

6.2 The Trustees have reviewed their investment policy with regard to their duties and guidance on ethical and responsible investment, and believe that responsible investment can enhance long-term portfolio performance. In particular, capturing investment opportunities driven by environmental, social and governance (ESG) integration and active ownership may have a material positive impact on investment returns and avoid risks.

- 6.3 Hence their investment manager, in particular in the equity portfolio, is encouraged to take an active approach to engagement in these areas when considering both existing and prospective investments.
- 6.4 The Trustees also encourage their investment manager to discharge its responsibilities in accordance with current best practice including the UK Stewardship Code, and the UN Principles of Responsible Investment.
- 6.5 When reviewing existing or appointing new investment managers a panel will review a manager's ESG policies to ensure that they meet the Trustees requirements in this area.

7. Management, Reporting and Monitoring

- 7.1 The Trustees have appointed Schroder (trading as Cazenove Capital) to manage the assets (excluding the direct property) on a discretionary basis in line with this policy. (as of February 2014).
- 7.2 Investment managers are required to produce a valuation and performance report quarterly. NHS Lothian Charity has nominated a list of authorised signatories, two of which are required to sign instructions to the investment manager.
- 7.3 The Investment Committee has responsibility for devising and implementing NHS Lothian Charity investment strategy, and monitoring the investment assets. The committee meets quarterly to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against the investment objective of CPI inflation plus 4% over the long term.
- 7.4 Investment managers are required to present to the Investment Committee/Trustees on an annual basis This report should include a review of asset allocation strategy, performance, risk profile and consistency with long term investment objective.

8. Approval and Review

- 8.1 The Trustees may amend this policy at any time and will advise the fund managers accordingly. In any event the policy will be reviewed at intervals of no more than 24 months and the fund managers advised of the outcome of the review.