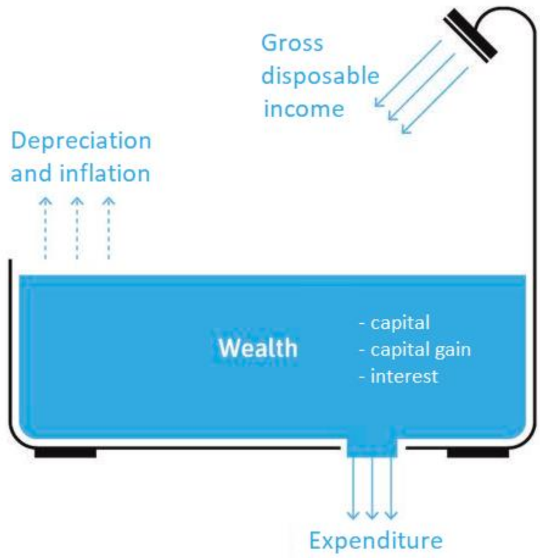
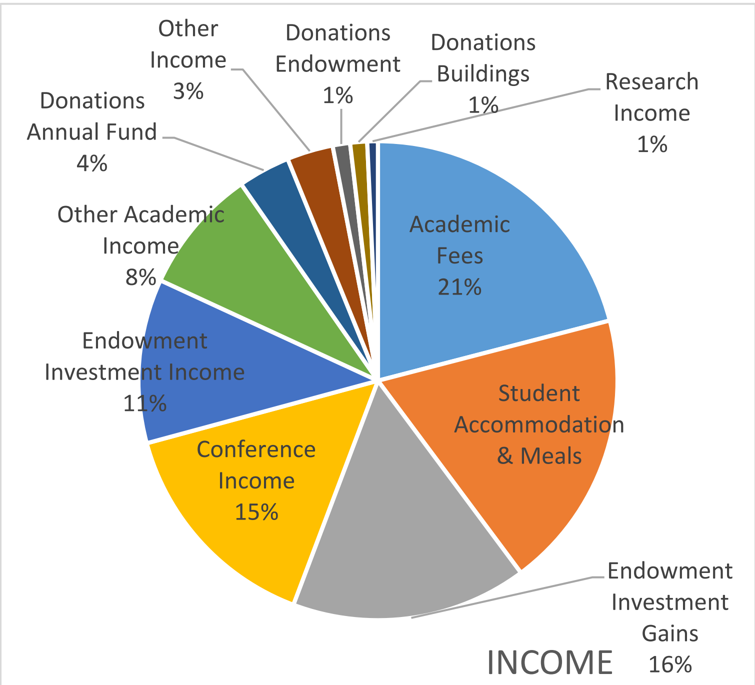
St. Anne's College Finance and Investment

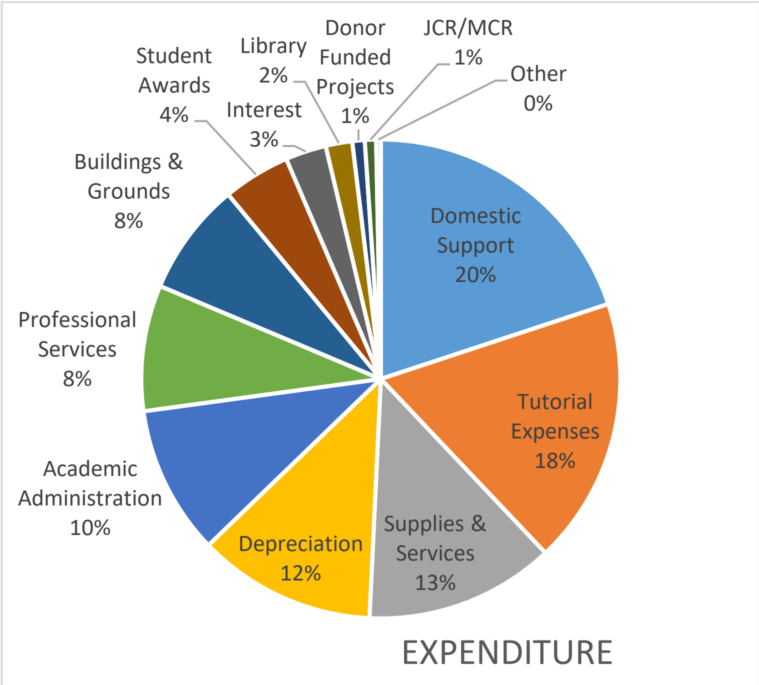
We are currently reviewing the college's investment strategy, and engaging with stakeholders as part of the process. We're looking at two significant changes, exploring Total Return, and responsible investment. We've joined the Responsible Investment Network – Universities, coordinated by the charity ShareAction, to help with the latter project – and they have worked with us on this short briefing and corresponding educational workshops, which go into more detail.

To start, let's think about St Anne's finances as a bathtub. The shower is the income, the drain is the expenditure, the steam is the loss of value through inflation and depreciation (money and assets being worth less), and the water level is the total wealth of the college. Whilst quite a large amount goes into the college each year, about the same amount goes out every year – and it's vital to keep a high water level to cope with leaks in the system or less water coming in. The college therefore keeps around £2.5M in reserve, to cover the mismatch in fees coming in and big expenditure items such as monthly salary bills or maintenance costs going out.



But money isn't water…

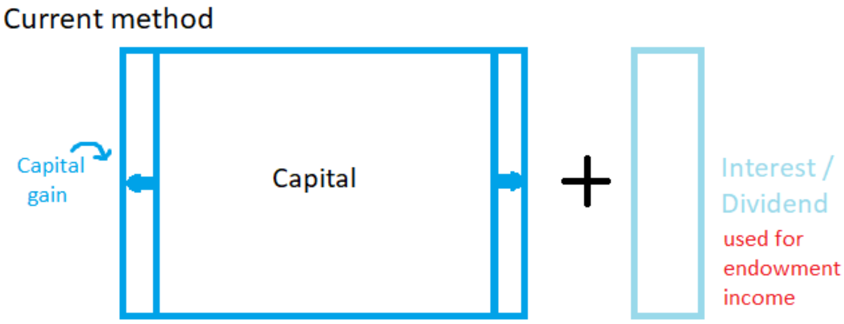


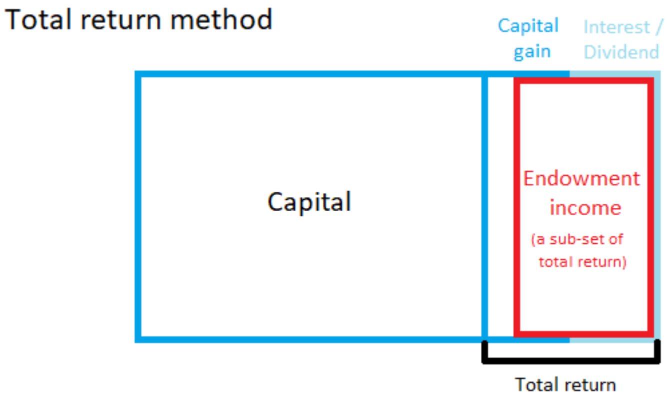


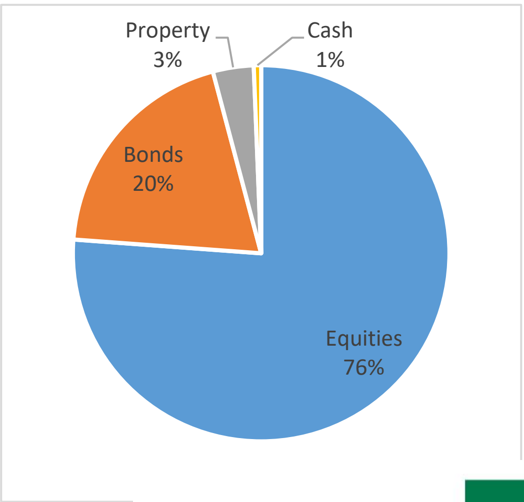
It's a bit more complicated: 14% of our income must be spent on specific things: it's 'restricted'. We have a larger amount (70%) of unrestricted income, but our total expenditure is in excess of this, and requires support from the restricted income funds to the extent that those restrictions allow. Restricted and unrestricted streams made small losses in 2018-19. Generally speaking however the college aims to make a surplus. In 2018-19 this surplus of around £2.0M was mainly generated by an investment gain in the endowment, together with a pension adjustment. We can't spend either the money made from investments becoming more valuable, or money from the pension adjustment – so whilst this surplus makes the college wealthier, it cannot be used as expenditure. For more details see the recent college annual review https://www.st-annes.ox.ac.uk/wp-content/uploads/2020/01/St-Annes-Annual-Review-2019-Web-28th-Jan.pdf

College investments

Our endowment makes money in two ways: (1) the value of a stock increases, which is called 'capital gain', and (2) the stock makes interest or gives a dividend. The current method we use means that we can't spend the capital gain – we can only spend the interest from the endowment. We are currently exploring moving to a model called 'Total Return', where we would be able to spend parts of both (1) and (2). This means we could focus less on getting high interest investments, and more on growing the pot as a whole (which is easier in the current economic environment). It's a more complicated approach, but it means that we could be more flexible about what sort of investments we make, which would make responsible investment easier.



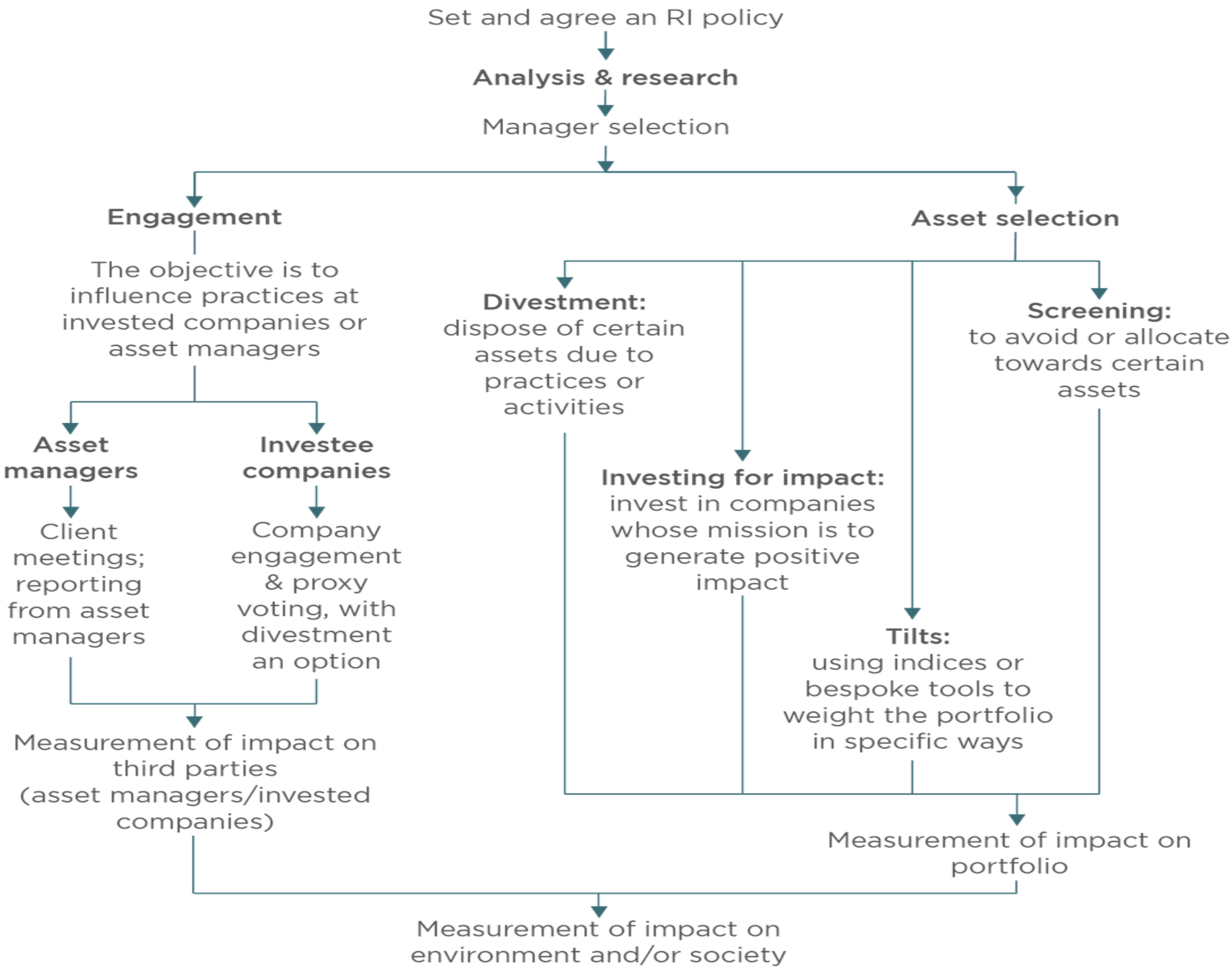




The college uses two asset managers to manage our investment portfolio: Oxford University Endowment Management (~£2m), and Newton Investment Management (~£42m). The breakdown of asset classes in the Newton portfolio are in the chart to the left, and the top holdings are below. As part of our investment strategy review, we'll be thinking about which asset managers we want to be using, and what we want to ask them.

How should St Anne's develop and implement a responsible investment policy? The diagram explores this process.

Following the conclusion of the consultation the college will need to select asset managers who will manage the college's investments on its behalf. After this, there are two necessary components of responsible investment: (1) Choosing which assets, which can be done using the four tools outlined below, and (2) engaging with assets and asset managers. Both of these processes are ongoing. Responsible investors constantly review activities in both areas. Responsible investment also involves looking at, but also beyond, fossil fuel producers, e.g. at high-carbon demand industries, and companies with social or governance concerns. Finally, responsible investors work with their asset managers to understand the different impacts that their investments are having on the wider world, and how to make these as positive as possible, within regulatory and financial constraints.



From *Investing in our Future: How Charities Can Lead The Way In Responsible Investment* (April 2019)
Available at: https://shareaction.org/wp-content/uploads/2019/04/Investing-in-our-Future.pdf

Links to investment principles:

UN Principles for Responsible investment
https://www.unpri.org/
The Paris Agreement
https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
Oxford Martin School Principles for Climate Conscious Investment
https://www.oxfordmartin.ox.ac.uk/downloads/briefings/Principles_For_Climate_Conscious_Investment_Feb2018.pdf
US Business Roundtable Commitment on the role of a Corporation
https://opportunity.businessroundtable.org/ourcommitment/

Glossary of Financial Terms:

Stocks, Shares, Equity

The distinction between stocks, shares and equity is blurred in the financial markets. All three words are used interchangeably to refer to securities that denote ownership in a public company. This is a company that is traded on a public stock market. Private equity is ownership in a company that is held privately or is not traded on a public market.

Dividend

A payment made by a company to its shareholders, usually as a distribution of profits, When a company earns a profit or surplus, the corporation is able to re-invest the profit in the business (called retained earnings) and pay a proportion of the profit as a dividend to shareholders. The size of the dividend is generally related to the performance of the company.

Bonds

A debt security, under which the issuer owes the holders a debt and is obliged to pay them interest (the coupon) and to repay the principal at a later date, termed the maturity date. Interest is usually payable at fixed intervals, usually (semi-annually or annually). The rate of interest is usually fixed or expressed as a margin to a pre-agreed benchmark.

Capital

In this sense means the sum invested and relates to the value of the financial assets. These financial assets may be held in shares, bonds, property or cash. The capital of the college may include the value of the property it owns, plant or machinery or in this case its investments or the "endowment." Strictly speaking the endowment refers to funds that have been donated to the college for specific purposes. More broadly these funds could be called its investments.

Capital gain

Is a rise in the value of an asset or investment that gives it a higher worth than the purchase price. The gain is not realised until the asset is sold, but given that investments or financial assets are traded on public exchanges the value of these assets will fluctuate giving capital gains when their value increases or capital losses when their value declines.

Investment Income

Is income that comes from interest payment (coupons) or dividend payments earned from the financial assets being shares or bonds that are held as investments. It does not include any rise in value of the financial asset.