School of Oriental & African Studies
Investment Policy Statement for the School's Asset Managers

Portfolio objectives

The long-term aim of the portfolio is to produce an annualised return of the Average Earnings Index (AEI) plus 3.5%. The 3.5% represents the income requirements and this will be measured on SOAS' financial year basis (31 July to 31 July). It may be that in certain circumstances the overriding aim of AEI plus 3.5% growth is at odds with the income requirement; if this is the case then it will be encumbent on the Asset Managers to raise this with the Investment Sub-committee.

The 3.5% per annum income requirement will be based on the average value of the portfolio as at 31 July over the preceding five financial years.

The Investment Sub-committee, in delegating investment management, requires the Asset Managers to pay attention to the standard investment criteria, namely the suitability of the class of investment and the need for diversification insofar as is appropriate to the circumstances of the portfolio. The Investment Sub-committee wishes to pursue a medium risk approach to investment as it is seeking a return of in excess of inflation over the long-term and is willing to take capital risk to achieve its objectives. A medium risk approach uses a well-diversified portfolio but may contain a high proportion of a single asset class such as equities.

Implementation

The investment strategy will be implemented through liquid instruments such as bonds (government and corporate), equities (both direct and indirect, through investment vehicles for certain areas) and property funds. The investment vehicles may be either open or closed end and will include property funds.

If the Asset Managers wishes to invest in asset classes not detailed above, permission will be sought from the Investment Sub-committee in advance of any purchases being made.

The maximum allowed in equities is 85% of the portfolio.

Benchmark (relative and long-term)

In light of the long-term objective of producing a return of AEI plus 3.5% per annum on an annualised basis, the Asset Managers recommend the following neutral asset allocation as it believes that this is consistent with SOAS' long-term objectives.

The benchmark and the allowed investment ranges that are to be used for performance comparison from 31 December 2009 is the following composite:

20% FTA Government All Stocks	10-30%
5% Cash (7 day LIBID)	0-20% (includes other)
30% FTSE All Share	20-40%
45% FTSE World ex UK (£)	30-60%

The portfolio’s asset allocation versus this composite benchmark is determined on an ongoing basis and the Asset Managers will take positions versus the benchmark reflecting its views regarding the relative attractiveness of the different asset classes it may invest in.

Expected returns and volatility
Given the Asset Managers’ assumptions regarding the long-term returns and volatility of various asset classes (see rationale behind assumptions below); the neutral allocation (versus benchmark) would, over the long-term, be expected to produce a return of 7.2% with a volatility of 13.1%.
Please note the following:

- These assumptions are subject to constant review and amendment should the underlying data change
- These are nominal not real returns.
- The estimated return and risk profile is based on the Asset Managers’ outlook and there is no guarantee that the portfolio will produce these returns with this level of volatility.
- These assumptions are based on a ten year view.
- The volatility level relates to normal market conditions and there will be periods when the volatility is in excess of the expected level.

Asset	**Neutral allocation versus benchmark (%)**	**Expected annualised return (%)**	**Expected annualised volatility (standard deviation %)**
Cash	5.0	0.5	1.0
Bonds (investment grade)	20.0	5.0	8.5
Equities	75.0	8.2	16.9
Total	**100.0**	**7.2**	**13.1**

See appendix II for the rationale behind the assumptions

Other considerations
- The value of no individual investment shall exceed 3% of the value of the total portfolio.
- The portfolio is managed on a discretionary basis.
- The investments are held in a ring-fenced client account at BNY Mellon (the Asset Managers’ custodian) and cash is held at a diversified group of banks.

Ethical considerations
SOAS follows a principle based approach to ethical investing and the policy reflects SOAS’ concerns with human rights, armaments, gambling and tobacco. The policy uses Ethical Investment Research Services’ (EIRIS) software and the policy is implemented by the Asset Managers.

The criteria used to reflect SOAS' concerns focus on:

- The avoidance of Companies that have not addressed allegations of breaches of human rights principles and International Labour Standards
- The avoidance of Companies that are a major producer (military related exposure exceeds 10% of turnover or is over £100m) and there is evidence of military related export activity and of military related strategic level exporting activity to oppressive regimes
- The avoidance of all Companies that have not addressed allegations or indications of involvement with anti-personnel landmines
- The avoidance of all tobacco producers
- The avoidance of Companies that derive more than 10% of turnover from gambling and / or are part of the National Lottery Consortium
- The avoidance of all companies within the oil and gas producers subsector, and all companies deriving more than 10% of their revenues from coal mining

Any Companies held within the portfolio that are deemed to be unacceptable under SOAS' ethical policy will be exited within six months.

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Appendix II
Description of the return and volatility assumptions in the Asset Managers' allocation matrix as at April 2009

Cash	**Return** **Volatility**	**0.5** **1.0**	Current UK Base rate Historic annualised standard deviation of the 1 month UK Interbank mid rate (1975-2004)
Investment Grade Bonds (government and corporate)	**Return** **Volatility**	**5.0** **8.5**	Average of the current gross redemption yields of the Merrill Lynch Sterling non-Gilt index (less 0.25% to reflect default risk) and of a 10 year Gilt. Historic annualised standard deviation of world government bonds as per Dimson, Marsh & Staunton analysis (1900-2003)*.
Index-linked bonds	**Return 4.8** **Volatility 7.3**		Average of the current gross redemption yields of a 10 year index-linked Gilt and aninvestment grade corporate index-linked bond (less 0.25% to reflect default risk), assuming 2.5% inflation (the former RPI based Bank of England inflation target). Historic annualised standard deviation of the FT All Index-Linked Gilt Index (1982-2004), adjusted upwards to reflect exposure to corporate index-linked bonds.
Equities	**Return** **Volatility**	**8.2** **16.9**	Historic annualised real return of world equities as per Dimson, Marsh & Staunton analysis (1900-2003)*, plus 2.5% inflation. Historic annualised standard deviation of world equity returns as per Dimson, Marsh & Staunton analysis (1900-2003)*.
Property	**Return** **Volatility**	**7.2** **13.8**	Historic annualised real return of the Investment Property Databank (IPD) UK commercial property annual index (1971-2003), plus 2.5% inflation. Historic annualised standard deviation of the, National Association of Real Estate Investment Trusts (NAREIT) Equity REIT index, 1972-2004.

* Global Investment Returns Yearbook 2004. Dimson, Marsh, Staunton (London Business School/ABN Amro).