

Distribution rule and investment policy

Distribution Rule and Investment Policy for Guy's and St Thomas' Foundation's (the "Charity's") Endowment and reserves

Objectives for the management of the Charity's Endowment

The objectives of the Charity's Endowment are:

1. To maintain the value of the Charity's Endowment in real terms over the long term; and
2. To produce a consistent and sustainable amount to be transferred annually to the Charity's Unrestricted Fund for expenditure on charitable objects and the governance and management of the Charity; and
3. To seek opportunities provided by investment through the Endowment for health gains in line with the Charity's mission and to act as a responsible investor in relation to stakeholders affected by the Endowment.

Maintaining the real value of the Endowment

4. The Charity seeks to maintain the value of the Endowment in line with the level of the UK's Retail Prices Index over the long term, measured in rolling 15 year periods, after actual transfers of value from the Endowment Fund to the Unrestricted Fund.

Distribution Rule

5. The Charity maintains three funds: Endowment, Restricted and Unrestricted.
 - 5.1. The Endowment Fund holds the Charity's longer-term investment assets and the returns from these assets provide the vast majority of the resources that the Charity can deploy in furtherance of its charitable aims. Most of the fund is expendable rather than permanent and this expendable part is managed on a total return basis. Income from investments is left to accumulate in the fund and an agreed annual transfer is made each year to the Unrestricted Fund to fund charitable activities. This transfer is governed by the Distribution Rule set out below.
 - 5.2. The Restricted Fund holds donations and legacies that have been given for specific purposes and, as such, are expected to be disbursed in the short to medium term. The Fund is held in cash and short term deposits.

- 5.3.** The Unrestricted Fund is, in effect, the Charity's operating fund. It receives the annual transfer from the Endowment, bears the majority of the staff and other costs of running the Charity and provides the majority of the charitable support via grants and programme-related investments. It also receives income in the form of donations and legacies. As explained in paragraphs 25-27 below, surpluses or deficits can arise on the Unrestricted Fund due to timing differences between grant commitments and incoming resources. In the event of surpluses, the funds are invested according to the policy set out in paragraphs 25-27 and the related income and investment returns accrue to the Unrestricted Fund.
- 6.** The Charity intends to transfer 4% of the value of the Endowment on a smoothed basis annually from the Endowment to the Unrestricted Fund (the "Spending Rate").
- 7.** The Trustees shall be able to vary the amount of the transfer in any year from that derived from the formula set out in paragraph 7 below. If the Trustees do exercise this power, they shall also consider how spending should revert to the Distribution Rule in future years, in particular the application of paragraph
- 8.** The actual transfer in any year will be calculated from the sum of:
- 8.1.** 50% of the amount of the annual transfer from the Endowment to the Unrestricted Fund in the previous financial year (adjusted appropriately for any one-off transfers from the Unrestricted Fund to the Endowment Fund) adjusted for actual inflation in UK Retail Prices between 1 January and 31 December of the year in question; plus
- 8.2.** 50% of the product of 4% (the Spending Rate) times the average value of the Endowment over the previous three years as measured at 31 December of the immediately preceding year and 31 March of the two years prior to that (adjusted appropriately for any one-off transfers from the Unrestricted Fund to the Endowment Fund)

[Worked example

Annual transfer for year ended 31.3.12 - £17.6m

RPI for the period 1.1.11 to 31.12.11 - 4.8%

Value of the endowment at 31.12.11 - £384m

Value of the endowment at 31.3.11 (plus adjustment for properties transferred from Unrestricted Fund to Endowment) - £(388+28)m

Value of the endowment at 31.3.10 (plus adjustment for properties transferred from Unrestricted Fund to Endowment) - £(367+28)m

Average value of the endowment - £398m

Transfer for year to 31.3.13 will be

$(50\% \times (£17.6m + (4\% \times £28m)) \times 1.048) + (50\% \times 4\% \times £398m) = £17.79m$].

Investment Policy for the Charity's Endowment Fund

9. The Charity intends to take sufficient investment risk to generate an average annual return on the Endowment of at least UK RPI + 4% over the long term, measured in rolling 15 year periods.
10. The Charity will invest in a diversified portfolio of assets.
11. The Charity will use a mix of internal expertise, external advisers and investment managers to manage the assets within the Portfolio. The Charity will normally invest in property directly and will invest in externally managed funds in other asset classes. Such external investment funds will be under the full delegated management of the relevant investment manager and will be subject to the manager's own investment policies and governance procedures. This approach ensures that the Charity has access to the widest range of high quality investment managers and takes advantage of lower administration costs.

Investment risk

12. The investment asset allocation will aim to ensure that the probability of a fall in value of the Endowment by 30% in any five year period does not exceed 5%.

Asset allocation and ranges

13. The Charity's allocation of assets and the ranges within which they are expected to be is as follows:

Asset class	Strategic Asset Allocation	Range
Property	40%	30-50%
Public equity	21%	12-30%
Private equity	14%	8-17%
Absolute return	6%	0-12%
Hedged equities	10%	5-20%
Credit (including private credit)	5%	3-12%
Commodities	0%	0-5%
Fixed income	3%	0-10%
Cash	1%	0-10%

Performance monitoring, return objectives and benchmarks

- 14.** The above table includes an allocation to global equities. This will comprise investments in direct equities, investments in long-biased equities managers and investments in exchange traded futures contracts on equity indices. Exchange futures contracts will not comprise more than 10% of the total value of the endowment in notional exposure.
- 15.** The overall performance of the Endowment will be measured against the Charity's principal investment objective of producing an annual average return of at least UK RPI + 4% measured over rolling 15 year periods.
- 16.** Performance of the Endowment will also be measured as follows:
- 16.1.** The product of the benchmark allocation and the benchmark performance of each of the sub-asset classes, as set out below.

Asset class	Total return benchmark
Property	IPD UK All Property Monthly TR
Public equities	MSCI AC World Index NR LC
Private equity	State Street Private Equity Index
Absolute return	HFRI FoF: Diversified LC
Hedged equities	HFRI FoF: Strategic LC
Credit	Barclays Global Corporate BBB TR LC
Commodities	S&P GSCI TR Index in USD
Fixed income	FTSE Govt All Stocks Index GBP
Cash	Month GBP LIBOR

- 16.2.** Individual investments in pooled vehicles will also be monitored against the manager's preferred benchmark index or the relevant asset class benchmark if no benchmark is specified by the manager.
- 16.3.** Each investment, asset class and the overall portfolio will also be monitored against an appropriate target investment return taking account of the risk being taken and the skill expectations from active managers.
- 16.4.** Performance will be assessed net of fees. However, the Charity will monitor fees being paid to managers and across asset classes and the portfolio as a whole to monitor the split between gross returns and net returns and to ensure that there is an appropriate investment return above the relevant benchmark on the active management fees paid.

Liquidity

- 17.** The Charity will maintain appropriate liquidity within the Endowment consistent with the commitments of and within the Endowment and the need to avoid significant sales of assets in distressed markets.
- 18.** The Charity will maintain at least 10% of its non-cash investments (including direct property) in daily dealing funds and a total of 30% in assets/funds that are realisable within three months (including the amounts in daily dealing funds).
- 19.** The Charity's cash (encompassing cash held within the Endowment, Unrestricted and Restricted Funds) will be invested in line with the following;

19.1	Products allowed	Money market funds/deposits/certificates of deposit/Gilts
19.2	Bank/product credit rating	Single A- or better
19.3	Maximum maturity	24 months or such longer maturity that matches specific grant-related cash flows
19.4	Minimum % of cash on call	Endowment - 50%
		Restricted - 50%
		Unrestricted - 50%
19.5	Maximum exposure to specified banks	
	Royal Bank of Scotland Group	£20m
	Barclays	£15m
	Union Banque Privée	£20M
19.6	Maximum exposure to any other bank group rated AA- or above	£15m
19.7	Maximum exposure to any bank group rated A-	£5m

Foreign currency

- 20.** The Charity recognises that it is a global investor and, as such, that its investments will be held in a variety of currencies.

21. The Charity will not speculate on currency markets but may choose to hedge foreign currency exposures. The Charity aims to keep its exposure to sterling denominated investments in the range 50-70% of the total portfolio, comprising the three funds.
22. A report of currency exposures will be prepared and reviewed by the Trustees each year.

Health-related investment within the Endowment

23. The Charity exists to improve health. All our resources are ultimately directed towards achieving that mission.
 24. We believe that, in the main, maximising financial returns from investments in our Endowment is the most efficient way of achieving our mission. We use these financial returns to support new ideas to tackle major health challenges, often through charitable grants.
 25. Our investments can also have a direct or indirect health impact, both negative and positive. We consider these impacts when making our investments.
- **Negative health impacts:** the Charity will not make any direct investment in tobacco-related shares, bonds or property. In addition, the Charity will monitor the level of indirect tobacco ownership it has through its investment in externally managed funds; if the level is more than 0.25% of the value of the gross assets in the Endowment, action will be taken to reduce the exposure to below this de minimis level.
 - **Positive health impacts:** the Charity will allocate up to 5% of the Endowment to investment in funds that generate health impact and returns that are commensurate with risk taken.

Health impact: We seek investment opportunities that are aligned with our goal of improving health and wellbeing for underserved urban communities in the UK. We prioritise investments in funds that create measurable and positive impact in both the healthcare system, as well as in sectors related to the social determinants of health

Returns commensurate with risk: Our impact investments must satisfy our requirement for market risk-adjusted returns. This requirement is necessary for us to replenish our endowment and, by extension, maintain the critical resources with which we fund our programmatic work.

The Charity will also seek opportunities provided by its direct property holdings and their redevelopment to improve the health and well-being of occupiers and surrounding communities.

The Charity will also consider opportunities, through engagement, to influence health issues in the UK that arise from its position as an institutional investor. The Charity will work with other investors in this regard.

Responsible investing

26. We aim to be a responsible investor, honouring our responsibility to the long term health of the planet and to the communities where we operate whilst generating appropriate financial returns from the Endowment.

- *Property.* As an owner and developer of property we are evolving an approach that promotes sustainability, delivers benefits to the communities around our properties, promotes health and delivers appropriate financial returns
- *Financial investments.* As an investor in public and private investment funds, we are evolving an approach that delivers increasing Environmental, Social and Governance benefits, increased diversity within the investment industry and moves towards a carbon neutral portfolio.

Investment Policy for the Charity's reserves

27. The Charity holds a significant amount of expendable endowment funds. These funds provide substantial financial underpinning to the Charity. As a result, the Charity does not need to hold free reserves within its Unrestricted Funds. The Charity therefore expects to distribute all of its Unrestricted Funds that are not invested in Programme- related Investments.

28. However, due to timing differences between the accumulation of Unrestricted Funds through the operation of the Distribution Rule and the incidence of commitments to charitable activities or the making of further programme-related investments, free reserves do arise and these are managed through a Distribution Account. This can result in either surpluses or deficits on the Distribution Account. The Trustees will, if necessary, make additional transfers from the expendable Endowment to cover any deficit arising.

29. Surpluses on the Distribution Account are to be invested in a portfolio of funds that reflects the fact that such reserves are expected to be committed to charitable activities or programme-related investments on a 3-5 year view.

Effective date and review

30. This policy is effective from 10 September 2012 and was last updated on 11 March 2020.

31. This policy will be reviewed from time to time and at least every five years.

David Renton
Director of Finance and Investment
11 March 2020