Christ Church Endowment: Philosophy and Investment Policy

Christ Church ('the House') has an endowment of £580 million, thanks to our founder(s), the wisdom of previous generations, and many generous donations over the years. It is a perpetual endowment, meaning that its time horizon is unlimited and that our duty is to protect the real value such that future generations are (at least) as well off as the current generation. Annual drawdowns from the endowment fund just over half of Christ Church's annual expenditure. Our objectives are therefore to:

1. maintain the real value over time, protecting us from the effects of inflation;
2. deliver sufficient total return to fund an annual drawdown ('the take') of 3.25% of the 5-year rolling average valuation;
3. accumulate a bigger endowment over time, to support expanding needs and capabilities; and
4. limit the chance of drawing down temporarily depressed assets by reducing volatility through diversification.

These multiple objectives are captured by a single investment aim: **to deliver an annual return of 4-5% real at around two-thirds the volatility of public equities.**

There are a number of principles that underlie the House's investment approach:

i) Whilst a cushion of income is helpful when markets are temporarily depressed in value, we assess investments on a total return basis: in the long run, we are indifferent between total return derived from income or capital return.

ii) Our main competitive advantage is our long-term time horizon, which allows us to consider real estate investments that would be unattractive to many commercial investors or time-constrained pension funds.

iii) Our concern for preservation of real value and our need for growth mean that we have a natural preference for real assets such as equities (public and private) and real estate. Bonds can be useful as insurance against extreme deflationary outcomes and to reduce volatility; and at certain points of the economic cycle they may offer outright attractions. Equities and real estate have provided the best hedge against inflation and (to different degrees) provide exposure to long-term economic growth.

iv) We reduce the prospect of drawing down depressed assets by *diversification*. We ensure that our portfolio is sufficiently diversified by asset type, by geography and by manager. Whilst underlying risk is difficult to measure, we use the objective gauge of volatility. There is a separate paper on risk that the Investment Group and Governing Body have considered.

v) Christ Church believes that it is essential to minimise the costs of management and transactions. Costs are taken into account before we agree the annual disbursement from the endowment.

vi) We will pay for active management only when we believe that there is sufficient evidence of skill to beat the market. We have a preference for passive exposure to global equities. We have active exposure to private equity, emerging market equities, small cap equities and to property (which is impossible to replicate passively in any case).

We believe that we have obligations as owners of companies to ensure the highest levels of governance, compliance with social obligations and improvements in environmental impact. We exclude coal, coal tar sands, and cluster munitions; our policy elsewhere is engagement whenever possible (via underlying managers). Responsible investment is essential to maximise long-term returns. (see the House's Responsible Ownership Policy at https://www.chch.ox.ac.uk/responsible-ownership-policy)

vii) Risk is a necessary adjunct to return. Whilst we aim to make money with every investment, on occasions we will be wrong and lose money. As long as we make money overall, this is a reality that the House accepts.

viii) Good governance leads to better investment results. We must have sufficient internal and external expertise within Christ Church; and we must be satisfied that our underlying managers have robust governance and talent.

ix) Given our long-term time horizon, we believe that debt at suitably low interest rates and long tenor will enhance returns for the House and provide a further hedge against inflation.

Our Investment Policy

Once every three years, the Investment Group considers the long-term return expectations from different asset classes and assesses the combination of risk and return that will most likely meet our needs. The current investment policy is shown below:

Asset class	**Range (%)**
Growth assets:	
a) Direct equity	15 - 25
b) Diversified	35 - 45
	50 - 70
Property:	
a) Rural	10 - 15
b) Residential	10 -20
c) Commercial	10 - 20
	30 - 55
Fixed income	**0 - 10**
Cash	**3 - 15**

Whilst we do not allocate specifically to regions, we regularly check the geographical weightings resulting from underlying investment decisions to ensure that we have appropriate diversification. As at 31 July 2019, our geographical exposure was:

UK	63%
North America	18%
Japan	4%
Asia-Pacific ex Japan	3%
Emerging markets	7%
Europe ex UK	5%
	100%

The geographic allocation depends on the inclusion or exclusion of property. Excluding property, we have broad geographic exposure and no home-country bias. Our skills in property do not generally extend to overseas markets, so most of our exposure is in our home market.

We do not hedge the currency exposure of overseas assets, though our largest manager (OUem) *does* undertake some hedging back into sterling given its predominantly non-UK portfolio but annual distributions to investors in sterling. Hedging ourselves would add complexity, cost and operational risk; yet academic research suggests that foreign currency returns make little difference to real global equity returns for a long-term sterling investor.

Cash is generally held in sterling unless there are exceptional circumstances. It is diversified across a number of banks approved by Governing Body.

Investment Management

The Investment Group makes recommendations on asset allocation decisions to the Finance Committee for the endowment; these in turn are ratified by Governing Body.

The management of underlying investments depends on the asset class:

- UK property may be held and managed directly by Christ Church, particularly in and around Oxford.
- UK property for residential development may be held in fund structures with other investors and managed by specialists.
- UK commercial property outside Oxford is managed in funds by expert managers.
- Equities, private equity and other financial investments are held in funds (listed and unlisted) managed by specialists.
- Christ Church may own UK government debt directly, including short-term Treasury Bills as a substitute for cash.
- Christ Church has agreed bank credit limits, which are reviewed annually.

We are aware that we do not have the weight of money that warrants particular attention by large asset management companies. We are also conscious of our longer time horizon than other investors in collective structures. Therefore, we have a preference for managers with a particular focus on Oxford and other colleges; those whose business will benefit from the involvement of an Oxford college; and for funds which we can influence because the other investors are known to us (such as other colleges).

Under no circumstances will we invest in large commercial open-ended property funds.

Our current list of managers is shown below:

- Baillie Gifford
- BlackRock
- Clipstone
- First Property
- Fulcrum
- Genesis
- Janus Henderson
- JP Morgan
- LongHarbour
- OLIM Property
- OUem
- Oxford Sciences Innovation
- Schroders
- Willis Towers Watson

Savills are retained by Christ Church to advise on property matters.

The Treasury
Christ Church
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