

Statement of Investment Principles (SIP)

The most recent version of this document was approved by the Board on 25 July 2023.

The SIP has been circulated to Trustees for information as it reflects both the policy and procedures of the Trust Investment Committee.

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Section 1 – Background and Introduction

1.1 - Legal Framework

The Nesta Trust (NT) was established by Trust Deed dated 22 September 2011.

The assets of NT are held in trust by Nesta, as sole trustee of NT. Nesta is a registered charity (Reg no 1144091) and a company limited by guarantee (CRN 7706036). The full Charitable Objects of Nesta and NT are attached at Appendix 1.

NT's assets are to be used for the purpose of providing income and capital to Nesta, to further the objects of NT.

NT has a Protector, appointed by the Department for Business, Energy and Industrial Strategy (BEIS), to ensure the integrity of administration of the Trust and propriety of its procedures.

As trustee, Nesta has wide powers to administer NT set out in Schedule 2 to the Trust Deed (in addition to any powers under the Trustee Act 2000). The Trust Deed gives Nesta the power to invest the assets of NT as Nesta sees fit in its absolute discretion “having due regard to the overriding need for proprietary and sound financial management in order to maximise the overall return within an agreed investment strategy”. This power is subject to two specific requirements in relation to assets of NT:

1. to not sell UK Government Gilts without the consent of the Secretary of State for Business, Innovation and Skills, save that this consent is *not* required if the sale of Gilts is for the purpose of:
 - Funding the activities of the Trustee in furthering the Objects of NT
 - Purchasing other UK Gilts
2. the Trustee has to set the investment and spending policies for NT assets “with a view to preventing the value of the Trust Fund and any returns generated by the Trust Fund falling below £260m” (the Floor)

The Nesta trustees have delegated certain decision-making powers on investment matters for NT to the Trust Investment Committee (TIC), as set out in the detailed Terms of Reference of the Committee (attached at Appendix 2).

This document sets out NT's Investment Policy and its associated management and governance responsibilities. It does not cover NT's portfolio of investment interests in Legacy Venture Investments, where governance is the responsibility of the Quarterly Investment Committee and the Board of NIM (Nesta Investment Management LLP, an FCA-authorised small alternative investment fund manager).

1.2 - Roles and Responsibilities

The Board of Trustees has the ultimate fiduciary responsibility for the NT.

TIC is authorised by the Board of Trustees to act on its behalf, subject to the agreed Terms of Reference and is comprised of Trustees and, as appropriate, non-Trustees with experience in the investment industry. TIC typically meets quarterly to discuss and review asset allocation policies, fund manager selection and investment performance of NT. TIC may also, from time-to-time, review the Trust investment strategy and make recommendations to the Nesta Board/Board of Trustees.

Section 2 - Investment Objectives

2.1 - Risk and Return

NT's investment objective is to balance the current and future needs of Nesta in furthering the objects of NT by:

- generating a total return sufficient to support the expenditure of the charity (the Annual Draw), without the assets breaching the Floor;
- maximising the returns net of fees, subject to meeting the Annual Draw requirement;

whilst operating within the confines of the Trust Deed. The full set of Investment Beliefs can be found in Appendix 3.

To meet these objectives, NT's investments are managed on a total return basis. The TIC aims to achieve an appropriate balance between risk and return, limiting the impact of idiosyncratic risk and hence short-term volatility in Nesta's funding position. To do this, investments are diversified across a range of asset classes.

To manage the risk of the assets breaching the Floor, the TIC has adopted a risk management framework, which is monitored quarterly. Its purpose is to monitor the intergenerational sustainability of NT and to highlight any likelihood of breaching the Floor well in advance, to ensure that corrective action can be taken.

2.2 - Operational Spending Rule

NT is responsible for providing cash funding to Nesta for operational purposes via a combination of capital gains and investment income, with transfers made from NT to Nesta under Clause 10 of the Trust Deed.

The Operational Spending Rule provides the basis on which these payments are made and facilitates the planning arrangements to ensure sufficient liquidity is available. It is defined as:

Net Operating Expenditure (as recorded by Nesta's Management Accounts)

plus

movements in working capital

subject to

holding between £2-£5M cash on Nesta's own balance sheet.

The Nesta Board of Trustees sets the Operational Spending Rule for Nesta / NT based on a recommendation from the Finance and Audit Committee (FAC), with input from the TIC. This is typically set in conjunction with Nesta's three year strategy, within which a budget is approved annually.

Subject to approval by the Trustees, under the guidance of both FAC and TIC, NT may also provide funding in excess of what is considered to be the long-term sustainable level of drawdown, in order to fund strategic initiatives and other contingent liabilities. This would be subject to approval by the Trustees, under the guidance of both FAC and TIC.

Annual Draw from NT (defined as cash transferred under the Spending Rule and any additional funding for strategic items) is documented between NT and Nesta pursuant to Clause 10 of the Trust Deed.

Section 3 - Investment Policies

3.1 - Asset Allocation

Asset allocation strategy

To achieve its investment objectives, NT's assets are allocated with the aim of achieving an investment income that is expected to cover a significant proportion of the Annual Draw, whilst diversifying investments across equity, fixed income and alternative asset securities to avoid undue risk concentration in any single asset class or investment category.

NT's Investment Beliefs and investment strategy were reviewed in 2021/22, which led to the adoption of the current asset allocation policy. This policy includes rebalancing ranges and there is an agreed process to monitor both compliance with the ranges and to review risk on a regular basis. TIC has some discretion in the implementation process.

All changes to asset allocation strategy must be recommended by TIC and agreed by the full Trustee Board.

More detail on how the portfolio is currently allocated, and the investment managers appointed is set out in Appendix 4.

Allocation review and rebalancing policy

TIC conducts an annual review of the strategic asset allocation and the investment managers, and on an ongoing basis ensures that surplus cash balances are applied to rebalance the portfolio. Cash withdrawals from NT are managed to reduce their adverse impact and are approved by TIC within its Terms of Reference authorisation.

Currency

The base currency of the investment portfolio is Sterling.

Investments may be made in non-Sterling assets, but currency exposure should not exceed 70% of the total investment portfolio value as the majority of Nesta's liabilities are in Sterling. Hedging exchange risk is permitted, subject to the TIC considering this as a cost-effective option.

Use of foreign-denominated bank accounts is permitted to mitigate foreign exchange risk, subject to there being sufficient volume of transactions.

3.2 - Liquidity Management

The following principles have been agreed in respect of managing cash holdings in both NT and Nesta

- NT aims to keep sufficient cash over and above the immediate drawdown requirements to meet unforeseen needs, so as to minimise the need for forced sales of longer term assets
- NT aims to maximise the ability to fund Nesta's drawdown requirements from income as opposed to asset disposals, subject to not compromising return expectations.

3.3 - Counterparty Risk

NT's counterparty risk exposures are to its investment managers and its custodian. These risks are mitigated by the advice of an investment consultant, whom NT selects via a competitive tender process. NT's Chief Investment Officer and the TIC monitor the performance of the investment consultant regularly, with a view to replacing them if they are not performing as required.

NT's investment managers are appointed by TIC on the advice of the investment consultant, who is also responsible for monitoring each investment manager and the performance of the relevant fund(s), reporting back to the TIC on a quarterly basis. In addition, NT's Chief Investment Officer meets with the investment managers periodically and TIC's practice is to meet each manager on a regular cycle.

NT's custodian is appointed based on the advice of the investment consultant. Their performance is reviewed periodically by the investment consultant and NT's Chief Investment Officer.

Section 4 - Governance

4.1 - Roles and Responsibilities

TIC is responsible for:

- Establishing and recommending to the Board a long-term investment objective, investment strategy and asset allocation policy, with due consideration of environmental, social and governance risks and impacts
- Monitoring and assessing the appropriateness of the investment strategy and structure
- Investing within the defined asset allocation ranges
- Monitoring the overall performance and risk profile of the NT
- Monitoring the performance of all investment managers compared to appropriate benchmarks
- Reporting to the Board annually on performance of the NT
- Approving new investment managers based on the agreed strategy
- Selecting external investment advisor(s) and custodian(s), and managing and regularly monitoring the relationship with those parties
- Annually reviewing the manager and adviser costs of running NT
- Annually reviewing the stewardship of NT
- Ensuring that the NT Chief Investment Officer and Group Chief Finance Officer execute all instructions for TIC in a timely and professional manner

The NT Chief Investment Officer and Group Chief Finance Officer are responsible for:

- Executing instructions for TIC
- Monitoring the overall value of the Trust and reporting any significant fluctuations to TIC
- Monitoring the performance of external investment managers and providing feedback to TIC
- Managing the relationship with the Trust's custodian
- Carrying out all selection and transaction strategies mandated by TIC
- Monitoring compliance with the asset targets / ranges and, in conjunction with the external advisor(s), recommending adjustments to TIC as necessary.
- Providing support to the Chair of TIC in reporting and co-ordination of TIC activities and reporting to the Trustee Board.

NT may delegate to external advisor(s) responsibility for:

- Assisting the TIC in monitoring compliance with the investment policy and guidelines contained in the Statement of Investment Principles
- Providing expert analysis and opinion on the investment policy and sustainability of NT
- Assisting and advising on the appointment, review and removal of individual investment managers
- Providing performance information across all asset classes, managers and NT as a whole
- Providing an annual report on the NT costs
- Providing an annual Stewardship report
- Reporting substantive market developments that may affect the management of Trust assets

The Investment managers are responsible for the day-to-day investment decisions and stewardship activities.

The Protector's role and remit is:

- Ensuring the integrity of the administration of NT and propriety of its procedures
- Attending and receiving all papers for the TIC, but with no right to vote. Nesta must provide information regarding the investment strategy of NT and investments made by NT to the Protector on a regular basis
- Reporting matters of serious concern to the Charity Commission and the Secretary of State
- Publishing an annual statement about the exercise of their function

4.2 - Responsible Investment and Corporate Governance

Nesta believes that responsible investment can enhance long-term portfolio performance, and is therefore aligned with its fiduciary duty and responsibility as trustee of NT. NT recognises that mitigating risk and capturing investment opportunities driven by environmental, social governance integration and active ownership may have a material impact on investment returns across all asset classes.

TIC wishes to encourage best practice in terms of activism and voting. They therefore encourage their managers to discharge these responsibilities in accordance with the managers' corporate governance policies, which take account of current best practice and codes and to report regularly on their compliance with these codes.

TIC will encourage NT funds to be managed in a way which promotes innovation and a long-term perspective by the management of its investee companies. TIC does not anticipate that this will negatively affect investment returns.

When reviewing existing, or appointing new, investment managers TIC will consider both the manager's environment, social and governance (ESG) policies and their voting policy. TIC has given its appointed investment managers full discretion when exercising rights attached to NT's investments, with the exception of investing in Tobacco and Controversial weapons which have been excluded. TIC accepts that assets invested in pooled arrangements will be subject to the investment managers' own policies on environmental, social and governance issues.

NT's Investment Consultant(s) will provide an annual Stewardship Report.

4.3 - Performance Management

The performance of individual investment managers will be reviewed on a quarterly basis, with reporting provided by the Investment Consultant. The NT Chief Investment Officer will typically meet with all managers at least annually, with those managers investing more than 10% of the NT assets typically meeting with TIC on an annual basis. Each manager's performance is measured against the relevant benchmark index.

It is intended that the operations of TIC will be periodically reviewed by Nesta's internal auditors.

Appendix 1 – Charitable Objects

For the public benefit -

1. To advance education, and in particular the study of innovation, by the promotion of research and the publication of the useful results thereof, in:
 - Science and technology
 - The arts
 - The efficiency of public services
 - The voluntary sector and social enterprise
 - Industry and commerce
2. To advance:
 - Science and technology
 - The arts
 - The efficiency of public services
 - The voluntary sector
 - Industry and commerce and social enterprise which
 - Relieves poverty
 - Relieves unemployment
 - Advances health
 - Advances environmental protection or improvement and sustainable development
 - Advances citizenship or community development.

The *voluntary sector* means charities and voluntary organisations:

- *Charities* are organisations, which are established for exclusively charitable purposes in accordance with the law of England and Wales.
- *Voluntary organisations* are independent organisations, which are established for purposes that add value to the community as a whole, or a significant section of the community, and which are not permitted by their constitution to make a profit for private distribution. Voluntary organisations do not include local government or other statutory authorities.

Sustainable development means “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

Objects of Nesta

The above objects are the objects of the Nesta Trust. Nesta has the same objects but with the addition of:

3. To advance any other purpose which is recognised as exclusively charitable under the laws of England and Wales and Scotland

Appendix 2 – Investment Beliefs

This document sets out Nesta Trust’s Investment Beliefs and explains how these drive its investment strategy.

**The Nesta Trust (the Trust) exists to support the Nesta charity (Nesta) in the achievement of its charitable objects.
In practice, the Trust’s primary objective is to fund Nesta’s activities.**

INVESTMENT BELIEFS

1) Long-term Nature of the Trust

The need to adopt innovative approaches to address social challenges, which is the strategic goal of Nesta, will extend into the long term.

Consequence: *The Trust is a permanent endowment and will not be spent down.*

2) Funding Nesta’s Activities

Each year, the Trust aims to generate a total return (the combination of capital appreciation and investment income) which is sufficient to cover:

- Nesta’s *Operational Costs*; plus
- allocations to pursue *Mission-aligned Investments*, the scope and scale of which is agreed by the Nesta Board. These investments do not form part of the Trust’s assets, but sit on Nesta’s balance sheet and are governed by the Nesta Board.

Together, these constitute the *Annual Draw*.

Consequence: *The Trust is invested to generate a total return sufficient to support the Annual Draw.*

*The **return objective** is to maximise the returns net of fees, subject to meeting the Annual Draw requirement.*

3) Intergenerational Sustainability

As prescribed in its governing Trust Deed, the Trust's assets must not fall below £260m (the *Floor*).

Consequence: *the Trust's assets are invested to generate a total return which is sufficient to meet the Annual Draw, without the assets breaching the Floor.*

4) Risk Management Framework

The Trustees have adopted a risk management framework which is monitored quarterly.

The objective of the framework is to project the expected level of the Trust's assets, taking into account their current level, the expected total return on the assets and the *Annual Draw*.

The purpose of the framework is to monitor the intergenerational sustainability of the Trust and to highlight the likelihood of breaching the *Floor* well in advance, to ensure that corrective action can be taken.

Consequence: *The Trustees monitor the intergenerational sustainability of the Trust and will take corrective action to ensure the assets do not breach the Floor*

5) Strategic Asset Allocation

The Investment Policy includes a strategic asset allocation which is designed by the Trustees, having taken expert advice and considered the views of the Investment Committee. As markets move, the asset allocation is reviewed by the Trustees and is rebalanced as appropriate in line with the strategic asset allocation.

Consequence: *Other than in exceptional circumstances, the Trustees do not take tactical views on markets.*

6) Investing for Good

The Trust can reduce social harm by excluding certain investments and can promote social good by being a shareholder and exercising responsible stewardship. Equally, the Trust can have an impact on social good by investing in assets which advance sustainability, where this does not compromise the *Annual Draw* and the *Floor*.

There are different investment approaches with similar risk/return characteristics which would meet the *Annual Draw* and *Floor* objectives, but which will have a different impact on social good.

Given its limited size and resources, Nesta Trust itself is not a signatory of the UK Stewardship Code 2020. However, the Trustees ensure that the appointed fund managers are fully compliant with the Code, through regular monitoring and reporting.

Consequence: *The Trust is invested in an unconstrained way to meet the portfolio's objectives for risk and return, whilst impacting social good through:*

- *avoiding investments in excluded sectors (currently controversial weapons, tobacco, thermal coal)*
- *preferring investments which advance social good*
- *fully exercising its voting rights (delegated to the appointed fund managers)*
- *actively engaging with the management of investee companies (delegated to the appointed fund managers)*

7) Simplicity

The investment strategy will reflect the resources available for decision-making and monitoring.

With the exception of its investment in 58VE and the Legacy Venture Portfolio, all investments are implemented via external fund managers. Their management styles will be a blend of active and passive approaches, designed to construct a well-diversified portfolio which seeks to deliver the highest return for the most demonstrable value-for-money, within acceptable levels of risk.

Fund managers are instructed to reflect the Trust's considerations for Investing for Good in their investment approach and to report back regularly on how they have discharged these responsibilities and managed financial risks.

Consequence: *The Trust will use external managers where possible, seeking to minimise the number of managers and the complexity of their strategies, subject to implementing the Trust's Investment Policy.*

Approved by TIC: March 2023

Appendix 3 – Asset Allocation Ranges and Managers

NT is in the process of transitioning to a revised investment strategy. The target asset allocation ranges and benchmarks (where relevant) for each asset class are set out below. Note that these exclude the Legacy Venture Investments:

Asset Class	Managers	Benchmark	Min %	Target %	Max %
EQUITIES AND PRIVATE EQUITY:			41.0	46.0	51.0
<i>Global Equities</i>	<i>Northern Trust</i>	<i>MSCI World Custom ESG</i>		14.0	
	<i>Impax</i>	<i>MSCI ACWI</i>		12.2	
<i>UK Small Cap</i>	<i>Liontrust</i>	<i>FTSE Small Cap Ex Investment Trusts</i>		8.2	
<i>Emerging Market</i>	<i>Comgest</i>	<i>MSCI Emerging Markets</i>		6.6	
Infrastructure Equity	<i>Equitix</i>			5.0	
FIXED INCOME/PROPERTY:			48.0	53.0	58.0
Multi-Asset Credit	<i>CQS</i>			15.0	
Asset-Backed	<i>Insight</i>			10.0	
Private Debt (corporate)	<i>Arcmont</i>			5.0	
Private Debt (infrastructure)	<i>Ares</i>			5.0	
Property¹	<i>58VE</i>			13.0	
	<i>Mayfair Capital</i>	<i>MSCI All Balanced Property Fund Index AREF</i>		5.0	
CASH				1.0	
TOTAL				100.0	

¹reflects actual allocations as at 31 March 2023

Approved by the TIC: 25 July 2023