

Nesta Trust Investment Policy

Nesta and the Nesta Trust

Nesta is the sole trustee of the Nesta Trust (the “Trust”) which was established by Trust Deed in September 2011. The Trust Investment Committee, on behalf of the Board of Trustees, is responsible for strategic investment decisions and how different types and styles of investment are used in the Nesta Trust portfolio. It is also responsible for appointing and monitoring external investment managers, consultants and custodians.

Investment Objectives

Nesta has a long-term Investment Policy intended to balance the current and future needs of Nesta in furthering the objects of Nesta Trust. This involves maintaining the ability of the Trust to produce a consistent and sustainable level of investment return to support the expenditure of the charity, within an acceptable level of risk. In particular it is conscious that the value of the Trust should not fall below £260 million. Higher levels of assets may be required to meet Nesta’s needs when investment income is expected to be low.

The long-term objective for the portfolio, measured over rolling five year periods, is to provide an annualised total return (net of fees) of 3.25% over the rate of inflation (as measured by the Retail Price Index).

Asset Allocation

To achieve its investment objectives the assets of the Trust are diversified across equity, fixed income and alternative asset classes such as property and private equity/venture capital. The asset allocation is also set to maintain sufficient liquidity across the portfolio to reduce the likelihood of making asset disposals at depressed values.

The Trust Investment Committee last reviewed the investment strategy in 2018, and implemented a revised portfolio structure in early 2019.

The ranges and target allocation for each asset class within the portfolio are set out below.

Asset Class	Minimum %	Target Allocation %	Maximum %
Equities	50.0	55.0	60.0
<i>UK Small Cap Equities</i>		7.5	
<i>Global Equities</i>		40.5	
<i>Emerging Market Equities</i>		7.0	
Bonds	15.0	20.0	25.0
<i>Global High Yield Bonds</i>		10.0	
<i>Buy and Maintain Credit</i>		10.0	
Property	15.0	18.0	21.0
Venture Capital	0.0	6.0	6.0
Cash / Other	1.0	1.0	3.0
Total		100.0	

Based on this asset allocation, about three quarters of the portfolio can be liquidated within reasonable timescales.

The Trust Investment Committee has focused active management in areas where it has most confidence that any extra risk will be rewarded and counteract the additional fees incurred. Active management is used in part of the global equity allocation, UK small cap equities, emerging market equities, global high yield bonds, property and private equity/venture capital. The remainder of the portfolio is invested passively which attracts lower management costs.

Funding Charitable Activities

The Trustees set the spending rule for Nesta to deliver its charitable objectives based on a recommendation from the Finance and Audit Committee (FAC) and input from the Trust Investment Committee reflecting the expected investment returns. The spending rule is typically set in conjunction with the three year planning process and aims to ensure appropriate sources of cash generation within the Trust to fund the activities of Nesta in perpetuity.

Managing Risk

A specific risk to be managed through asset allocation is the requirement in the Trust Deed that investment and spending policies are set with a view to preventing the value of the Trust falling below £260m. The Trust Investment Committee therefore sets the asset allocation policy, monitors investments and expected cash flow to ensure a low probability of breaching this limit or impacting budgeted spending levels. The strategy should ensure that there is a balance between risk and reward irrespective of the value of the Trust and aims to maintain the cash drawdowns in real terms. When investment income is expected to be low, holding higher levels of assets reduces the risk of the investment returns being insufficient to meet Nesta's needs.

Responsible Investing

Nesta believes that responsible investment can enhance long-term portfolio performance. In particular, capturing investment opportunities driven by environmental, social and governance (ESG) integration and active ownership may have a material impact on investment returns and risks. The Trust's Investment Committee aims to encourage companies to innovate for the delivery of long-term returns. Some of our responsible investment initiative's will take time to implement fully.

Divestment: - Where practical we have sold out of those companies whose activities, we deem incompatible with our charitable objectives. In early 2018, the Board approved a policy to exclude investment in tobacco and controversial weapons from segregated mandates and where feasible via pooled fund investments. When reviewing existing or appointing new investment managers the Trust Investment Committee will review a manager's ESG credentials and voting policies.

Engagement: - We hold all our fund managers to account for the way they interact and vote on our behalf as owners of companies. For our index investments, we engage Hermes Equity Ownership Service, the pioneering stewardship company, to oversee our portfolio. Nesta encourages our active managers to discharge their responsibilities in accordance with current best practice including the UK Stewardship Code, and the UN Principles of Responsible Investment.

Advocacy: - We have been a leading advocate for transparency in costs and charges, and for ensuring that the remuneration policies approved by investors support innovation.

Approved by the Board: 16th July 2019