Remarkable research for healthy ageing

THE DUNHILL MEDICAL TRUST

Investment Policy Statement:
Doing more for our mission

1. History

1.1 The Dunhill Medical Trust is an independent charitable foundation focused on understanding the mechanisms of ageing and age-related disease and improving later life health and well-being outcomes.

1.2 The genesis of the Trust was in a £250k legacy from the personal estate of Herbert Dunhill who died in 1950 and left the money to use to support medical research into finding a cure for tuberculosis. By the 1980s, the Trust was receiving an increasing number of grant applications related to issues associated with ageing and the care of older people. Although there was a clear case of unmet need, many applications could not be supported because they fell outside the original aims of the Trust. To rectify this, the Trust Deed was formally amended and in 1988 the Charity was renamed The Dunhill Medical Trust and was registered with the Charity Commission. In 2011, the Dunhill Medical Trust also became a charitable company limited by guarantee. The legacy has been prudently and successfully invested and managed by the independent trust throughout these administrative changes and is now worth over £170M today.

2. Investment mandate and time horizon

2.1 As a charitable foundation, we seek to demonstrate our public benefit by identifying healthy ageing-related research and innovation opportunities, providing both funding and capability and capacity-building support to enable researchers and innovators to influence positive systemic change. As an organisation with a social purpose, we therefore aim to be an ethical and responsible investor. The following policy reflects our understanding of the Charity Commission's current guidance (CC-14).

2.2 The objective of our investment activity is not to simply increase our wealth, but rather to enable us to meet our spending requirements in line with our agreed priorities (which we review and refresh on a rolling five-year basis) and use our endowment in ways that enable us to do more for our mission.

2.3 Given the long-term nature of the academic and clinical research which are so core to our mission and the broad scope of our ageing focus, it is likely that the Trust will need to remain in existence for at least another 25 years.

2.4 As a responsible investor, we want to minimise the negative effects that our investments might make and make positive contributions, where possible, to further support our mission. We believe that this is in the Trust's best interests as it has the potential to protect or enhance the financial value of our investments as well as support delivery of the Trust's mission.

2.5 While the substantial part of our endowment comprises *financial investments* as defined by the Charity Commission, we have ring-fenced £5M for *social investments* which are aligned with our mission (see Appendix: Social Financing Policy for further details).

2.6 The Trust is an asset owner, working primarily with intermediaries (asset managers) who select companies in which to invest and manage the relationships with them. Most of our investments are in pooled funds, where asset managers aggregate capital from a range of clients and deploy this into several investments to create a fund portfolio. We therefore have limited control around individual investment decisions and are instead reliant on the asset managers' investment selection processes. The selection of asset managers who share our principles and values and can demonstrate that they understand our mission is therefore a priority for us. To assist us with this, we employ investment consultants (the contract for whom is reviewed on a five-year cycle) to identify suitable asset managers, whose investment strategies, values, and intentions align with our mandate.

2.7 We believe that positive impact can be delivered by influencing individual companies to change their behaviour and improve their business practices, through a sustained engagement process. We therefore seek to invest with fund managers who: (1) can demonstrate effective engagement in terms of engagement on environmental, social and governance matters with their underlying portfolio companies as part of effective stewardship, and: (2) integrate the consideration of environmental, governance and social matters into their evaluation and decision-making processes. Where underlying portfolio companies do not sufficiently respond to engagement activity, or the manager is unable to evidence progress against engagement targets on which we will require regular reporting, we will seek to encourage divestment from either portfolio companies, or ultimately, our holding in the fund.

2.8 Our strategic asset allocation (see Section 4) sets out how we segment our portfolio. A proportion of the portfolio is allocated to private equity investments in recognition of the premium financial return opportunity afforded by such investments in return for committing capital for longer periods (10 years+) and the contribution that this has in achieving our ambitious return objectives. However, we are mindful of the related risks, not least the so-called "blind pool" risk of some private equity funds and so actively seek to invest in funds that have the potential to contribute positively to achieving our mission.

2.9 We will prioritise investment in funds that intentionally look to address societal challenges, including those which seek to contribute positively to people's health – encompassing the wider social determinants of health - globally. The latter might include the provision of affordable housing or access to education or healthy nutrition to underserved markets for example. Conversely, companies that have the potential to cause harm to the health of the population both directly or indirectly, such as those producing harmful products or polluting industries are likely to have a negative impact on the Trust's mission.

2.10 Similar to our approach with grant-giving, we acknowledge that *how* we fund is just as important as *what* we fund. Therefore, we aim to select managers who not only invest in good companies, but who themselves can demonstrate that they align with our values and principles.

3. Investment objectives

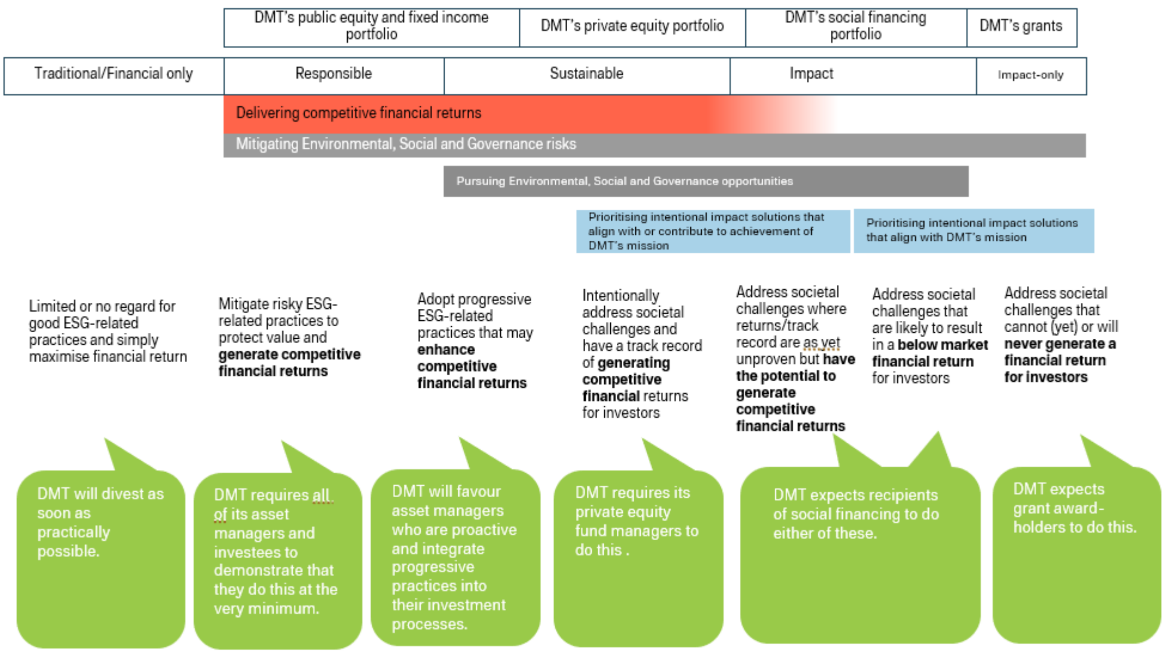
3.1 We set objectives for our investments across three areas:

3.1.1 Impact – including standards of responsibility and sustainability

3.1.2 Risk

3.1.3 Financial return.

3.2 Each of these three elements are considered equally important in the investment decision-making process with slightly different requirements and characteristics, depending on the role they play in the spectrum of our investment portfolio. Our policy on the Social Financing element of the portfolio is set out in Appendix 1 of this document.



3.3 Impact Objectives (including standards of responsibility and sustainability)

3.3.1 All investments have an effect – positive or negative – on people and the environment. Investments are considered to have a positive contribution to supporting our mission where they directly or indirectly contribute to healthier later life outcomes.

3.3.2 Across the whole portfolio, we prioritise investments into companies with strong environmental, social and governance (ESG) practices. Mitigating risky ESG-related practices to protect value and generate competitive financial returns is what we expect at the very minimum. While those companies' activities may not directly contribute towards our mission, we will favour those that adopt progressive ESG-related practices that may enhance competitive financial returns, selecting fund managers whose policies and practices are aligned to our own values and principles.

3.3.3 Companies with weak ESG-related practices, such as poor employment safety records or exploitative supply chains, are likely to have negative impacts on people or the environment, and potentially harm the ability to achieve the Trust's objectives. See Paragraph 2.7 for our expectations regarding engagement and Section 5 for more detail on our areas of focus.

3.3.4 For our public investments, we aim to develop and use a framework to help understand the impact created by underlying companies within our portfolio.

3.3.5 For our private investments, we go further - prioritising those managers and fund strategies which are impact-intentional, looking to address societal challenges whilst generating competitive financial returns.

3.3.6 Within the separate allocation to social investments, we look for solutions that highly contribute or strongly align to our mission. Further detail around the desired impact of those investments can be found in the Social Financing Policy (Appendix 1).

3.3.7 We understand that trying to capture and understand impact can be challenging, especially when considering attribution and contribution. Whilst our approach will continue to evolve, we aim to understand the intentions of partners, using our resources to support those who share our values and principles.

3.4 Risk objectives

3.4.1 We believe our mission will remain relevant for future generations. Therefore, we seek to exist indefinitely - at least operating for the next 25 years - and so we avoid taking risks which may endanger our ability to deliver our mission in future years. This long-term perspective means that we can tolerate short-term volatility, without the need to realise losses caused by valuation changes.

3.4.2 We seek to maintain sufficient levels of diversification across our portfolio to minimise risk where possible across a range of asset classes. To reduce concentration risk, we aim to limit any single company investment to less than 5% of the total portfolio. We seek to limit the maximum investment into a single fund to 20% of the total portfolio, except for passive index funds or cash-equivalent funds which are permitted to exceed that threshold.

3.4.3 As a long-term investor, we have a five-year time horizon for most of our investments. We therefore aim to hold investments for a minimum of three years and can take positions which require a 10+ year time-horizon, such as private equity funds.

3.4.4 We aim to maintain prudent levels of liquidity that allow us to meet our expected spending requirements over a five-year period. We hold 2% of our assets as cash with daily liquidity, that allows as to meet our short-term quarterly cash-flow needs. At least 50% of the portfolio is held in assets that can be liquidated quickly, to allow us to meet all possible financial commitments if required in adverse scenarios.

3.4.5 Given the low annual cash requirement relative to the overall value of the investment portfolio, we have a relatively high-risk appetite for longer term investments that have a high potential to contribute positively to our mission, if suitable mitigations have been considered.

3.5 **Return objectives**

3.5.1 Our primary financial return objective is to enable us to meet the spending projections associated with our agreed strategic plans and allow us to fulfil our mission, rather than simply to increase our wealth.

3.5.2 Our current strategic plan assumes annual expenditure of c.£7M and seeks to generate that amount from total investment returns (capital growth plus income) resulting in a target real return requirement of approximately 4% based on its current portfolio value (although we assume 4.5% for planning purposes).

3.5.3 The average annual grant commitment is reviewed by the Board and updated on a five-year cycle, with the operational budget reviewed by the Board annually. Changes to spending projections may result in changes to the target return requirement and resulting investment profile.

3.5.4 The level of returns expected across individual investments are expected to vary significantly across asset classes, in line with the associated risks and positive impact potential.

3.5.5 We acknowledge that our approach may restrict our investment universe, because of any exclusions alongside our preference for managers who have intentional engagement and impact strategies. Therefore, whilst benchmarks are used to measure relative performance, we understand that the returns achieved by managers may diverge from the market, due to differences in the underlying investment strategies and approaches.

4. Strategic Asset Allocation

4.1 The Strategic Asset Allocation (SAA) segments the portfolio into the following areas:

4.1.1 **Growth Assets:** Assets whose role is to drive portfolio growth, maintain the real value of the portfolio and support spending over the long-term. Primarily consisting of equity positions, returns are driven both by distributions from dividends and capital growth.

4.1.2 **Diversifiers**: Assets which are intended to reduce the volatility of the overall portfolio, by producing a diversified stream of returns. Primarily consisting of property and multi-asset funds, returns are driven from a diverse set of sources including interest repayments, property rents and contracted income, as well as valuation growth.

4.1.3 **Liquidity Reserves:** Assets which are low risk and intended to provide liquidity to meet short-term spending and cash requirement needs, during periods of economic stress. Primarily consisting of government bonds and cash, with returns driven by interest income.

4.2 The current composition of the strategic asset allocation (SAA) is set out below:

Portfolio Segment	**Asset Class**	**Target Allocation**
Growth Assets	Developed Markets Equity	50%
	Emerging Markets Equity	10%
	Private Investments: Private Equity	10%
Diversifiers	Property	5%
	Tactical Multi-Asset Allocation Funds	15%
	Private Investments: Alternatives (including property)	0%*
	Fixed Income – Corporate Bonds	0%
Liquidity Reserve	Fixed Income – Government Bonds	8%
	Cash	2%
**Individual investments are permitted at the discretion of the Investment Committee*		

4.3 We review our strategic asset allocation (SAA) annually to assess its suitability and appropriateness in line with advice from our investment consultants.

4.4 We avoid speculative and opaque investments that are not easily understood.

4.5 We will define what we mean by each asset class, including the role it plays in the portfolio, setting objectives across impact, risk, and return. The Investment Committee works with our investment consultants to update the asset class descriptions and objectives as part of the annual SAA review process.

5. Areas of focus

5.1 We recognise the effects of climate change and acknowledge its relation to the Trust's mission through its impact on the health of older people. Therefore, we expect the companies in which we invest to support the global transition to a low-carbon economy, with a commitment to having a net-zero investment portfolio by 2050 at the latest. More specifically, we expect portfolio companies to have net-zero carbon transition plans in line with the Paris Agreement, and/or Science Based Targets and for asset managers to be engaging with underlying portfolio companies to influence their adoption of these.

5.2 In line with our own mission, values, and principles, we expect managers of our public equity funds to engage with underlying portfolio companies to influence those who:

- 5.2.1 Do not have transparent supply chains or good employment practices related to decent work, fair pay or equity, diversity and inclusion polices, and indeed for the asset managers themselves to be pursuing such policies and plans.
- 5.2.2 Are involved in the production of food and beverages, to prioritise improving the nutritional content of their products.
- 5.2.3 Are involved in the production of medical goods or services, to prioritise improving access and affordability of their products or services.

5.3 Our overall approach is one of engagement. We recognise the complexity of the issues and so we have sought to keep absolute exclusions to a minimum. There are some investments in certain industries, however, that we consider incompatible with our mission and/or where sustained engagement is considered unlikely to achieve behavioural change owing to the nature of the industries and their underlying revenue streams. We therefore exclude investments that fall within the following areas:

- 5.3.1 Companies that generate a significant proportion of their revenue (10% or more annually) from the sales of tobacco-related products in line with Universities UK and Cancer Research UK's Joint Protocol.
- 5.3.2 Companies that generate a significant proportion of their revenue (10% or more annually) from the extraction of fossil fuels. We define this primarily as

those companies which hold significant fossil fuel reserves used for energy applications (as per MSCI), with this exclusion to be applied and in place for our portfolio by December 2025.

5.3.3 The Trust cannot control the individual stock purchasing decisions within the collective funds it holds and monitors this on a best endeavours basis. Should any excluded holdings arise in such funds at any point post-subscription, the Trust's strict policy means that these funds will be disposed of as soon as practically possible.

5.4 For our private equity allocation, we favour investments in funds which intentionally invest in companies that are addressing issues which are closest to our mission. We also consider fund strategies which are more broadly supportive of our mission, to widen the pool of potential opportunities (such as prevention of ill-health, addressing the social determinants of health, social inequalities, climate change, etc..). These may be mapped to the United Nations' Sustainable Development Goals but if that is the case, the mapping must be meaningful. We would like to prioritise particularly:

5.4.1 Companies that provide innovative health or social care services.

5.4.2 Companies that provide affordable and good quality housing for underserved markets or people.

5.4.3 Companies that provide product or services, with a focus on underserved markets or people.

5.4.4 Companies that actively work to reduce the impacts of climate change and support the transition to a net-zero economy.

5.5 As a fund investor primarily, however, the Trust acknowledges its investment portfolio consists of many companies, not all of which will fall into the above classifications. It therefore aims to work with fund managers whose strategies broadly pursue the objectives.

6. Governance

6.1 The Investment Committee reviews the investment performance on a quarterly basis with delegated authority from the Board of Trustees to make investment decisions, currently for individual transactions valued up to £10M. Any transactions valued at more than £10M must be approved by the Board.

6.2 Individual manager performance is assessed according to individual benchmarks, with the overall portfolio compared to return target and policy benchmarks proposed by our investment consultants and approved by the Investment Committee.

6.3 Sub-optimal performance or other concerns beyond performance may lead to a review of the investment, including potential escalation with the manager and, ultimately, divestment plans triggered.

6.4 Managers must submit agreed reports on a periodic basis which are reviewed, assessed, and discussed as part of the quarterly performance review process, supported by our investment consultants.

6.5 The Investment Policy Statement is reviewed annually and is published online. In addition, each of our investments are included within our annual report alongside a summary around the projected impact (both positive and negative) of our investments.

7. Intention

7.1 Following the clarification of the Charity Commission guidance on Trustee responsibilities in relation to investment, the sector has been reviewing its approach and we are all still learning. This document is intended to be a statement of our intent and our acknowledgement that this is the start of a journey on which we will learn and adjust along the way. It is not the ultimate destination. We hope that by publishing this policy, we will encourage others to share their experiences and demonstrate that we are open to collaborate on seizing important opportunities and addressing challenges which we don't have the resources to tackle alone.

7.2 We acknowledge that this policy is aspirational and that it may take some time for our investment portfolio to meet these objectives. There may be instances where due to the nature of the investments, we are unable to exit some holdings which do not align with our risk, return, or impact objectives. We aim to be transparent about where we are at in our journey, pursing the aims of doing more with our assets, for our mission.

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Appendix 1: Social Financing Policy Statement

1. Background

In 2021, The Board of Trustees agreed to ring-fence £5m of its investable assets, in the first instance, to use specifically for the purpose of making social investments.

2. Investment Mandate

2.1 Our social investments are made with the dual purpose of supporting the Trust's mission and delivering a financial return, in line with our understanding of the Charity Commission's current guidance (CC14) on social investments.

2.2 We expect that the form of investment may vary within the portfolio and may include a range of financial mechanisms such as repayable grants, low interest loans or equity investments.

2.3 We expect that our social investments may provide capital directly to purpose-driven organisations (such as charities or social enterprises), or indirectly through investment into pooled funds.

2.4 We aim to partner closely with our investees throughout the investment life cycle, whether investment managers (through our fund investments) or purpose-driven organisations (through our direct social investments).

2.5 Similar to our overall investment portfolio, we have set investment objectives across three areas: impact, risk and financial return.

2.6 Our desire is for our social investments to sit at the impact-end of the spectrum of capital, allowing us to support innovative approaches that can help deliver our mission.

3. Investment Objectives

3.1 **Impact Objectives:**

3.1.2 We seek to invest in solutions that contribute substantially to, or strongly align with, our mission of achieving healthier later life outcomes.

3.1.3 For direct social investments, we look to partner with organisations that deliver outcomes which clearly align to the Trust's mission. This may include organisations directly providing care for older people, those currently delivering activities that lead to the improvement in health and well-being in later life, or those with the potential to deliver those outcomes.

3.1.4 For investments into funds, we expect that the fund strategy and underlying investments will substantially support the Trust's mission. This may include supporting solutions that go beyond directly addressing health outcomes and tackle the wider social determinants of health (such as housing, education or living environments) for the wider population.

3.1.5 We expect there to be a range of alignment with our mission across our portfolio, with some social investments more strongly aligned than others. However, every social investment will need to evidence some level of support in achieving our mission.

3.2 **Risk Objectives:**

3.2.2 We understand that to achieve the outcomes we seek, we may have to take risk to support innovative, new, and untested approaches.

3.2.3 We aspire to use this allocation to support a range of opportunities and whilst being prudent, we have a high tolerance and appetite for risk.

3.2.4 We are willing to invest in opportunities that may be unproven - either in terms of impact outcomes or financial returns - if there is a potential to generate impact in line with our mission or deliver financially.

3.2.5 We understand that supporting high-risk propositions may result in some investments not performing, either in financial or social impact terms, as planned. We believe that those disappointments can be justified, in the pursuit of our mission and as a learning organisation, and we aim to be transparent and supportive of partners throughout the investment life cycle and in sharing our learning publicly along the way.

3.2.6 We aim to limit our concentration risk, by restricting the maximum single social investment within this portfolio to 20% of the overall allocation.

3.3 **Return Objectives:**

3.3.2 We aim to recycle the funds to re-invest them over the longer-term and therefore aim to preserve the value of the allocation in nominal terms.

3.3.3 We aim to take a portfolio approach, which allows for a range of expected investment returns across individual investments.

3.3.4 We may invest in opportunities with an expectation of partial capital loss, where we believe the potential impact generated is sufficient to justify the financial return.

3.3.5 We are willing to invest in solutions that are likely to result in below market-rate financial returns, if we believe they provide sufficient support in achieving our mission.

3.3.6 We may seek to make investments that have a higher expected financial performance, acknowledging that in some instances those may be mission-adjacent or mission-supportive rather than entirely mission-aligned.

4. Areas of focus

4.1 For our direct social investments, we seek opportunities that have a tangible impact on achieving healthier later life outcomes.

4.2 For social investments in funds, we look for strategies that will support underlying portfolio companies that support the achievement of healthier later life outcomes. However, we understand that funds may have a range of strategic focus areas, and to avoid limiting the scope of opportunities, we will support a range of themes that align with, or are supportive of, our mission such as:

4.2.2 Health and wellbeing of people across the life course

4.2.3 Supporting alternative research careers for academics and clinicians working in health and social care

4.2.4 Solutions that address the social determinants of health, particularly for underserved population groups and communities

4.3 As a fund investor primarily, however, we acknowledge that the fund's portfolio will consist of many companies, not all of which will fall into the above classifications. It therefore aims to work with fund managers whose strategies broadly pursue the objectives, such as those pursing mission-driven solutions or themes.

5. Governance

5.1 The Social Financing Committee reviews its portfolio on an annual basis with delegated authority from the Board of Trustees to make financing decisions, currently for individual transactions valued up to £1M. Any transactions valued at more than £1M must be approved by the Board in advance.

5.2 Proposals are reviewed and assessed during scheduled meetings throughout the year, co-opting the support of external advisors, consultants, and relevant experts where appropriate.

5.3 The performance of individual investments is managed and reported on an annual basis, although we will continue to monitor the activity of investees in the interim.

5.4 Where there are concerns about a direct social investment, either due to financial performance or delivery of planned outcomes, a review may take place including meeting with the investee. If concerns cannot be addressed, the Committee reserves the right to trigger divestment plans in accordance with the agreement.

5.5 Investees must submit agreed reports on a periodic basis for review by the Committee.

5.6 The Social Financing Policy Statement is reviewed annually and is published online. In addition, summary details of each investment are included within the Trust's Annual Report and Accounts.

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