

Finance Policy FND_UCT Investment Portfolios_INV002

Objective The purpose of the policy is to:

- summarise the investment strategies for the Endowment (previously No. 1), No. 2, and Cash (previously No. 3) investment portfolios at UCT;
- set out the conditions applicable for each portfolio; and
- clarify the process and related responsibilities for each of the portfolios.

Scope Includes all UCT monies invested in the Endowment (No. 1), No. 2 and Cash (No. 3) portfolios.

Applicable to All UCT fund holders, with surplus funds to invest or who are the beneficiaries of an endowment.

Additional information Related policies:-
- Funds deposited at or held by UCT [[GEN001](#)]

Policy The policy is to ensure that surplus monies are invested in the most appropriate investment portfolio, based on operational requirements for availability of funds.

- General rules for all Portfolios**
- All investment requests must be processed via the Treasury Department, including requests for the creation of new investment funds.
 - Supporting documentation must be attached to all requests for new investment funds.

 **Note**

For Endowed funds, this includes the decision to invest the monies (e.g. minutes, will, donation letter, fund raising campaign conditions).

Where investment funds are to be utilised to support continuing activities, the funds must be transferred from the investment fund to an operating fund via a journal entry, approved by Treasury. This will be based on the withdrawal rules governing that portfolio.

- Investment fund transfers do not create budget availability in the Investment fund, as no direct expenditure is allowed from these funds. No Purchase Orders may be processed directly against Investment funds.

 **Note**

The only exceptions relate to bursary, scholarship and prize funds, where budget is created automatically (based on revenue transfers) in the Investment fund, and annual spend is effected directly out of the Investment fund by Treasury or via the relevant Student Funding offices.

- Investment funds must be linked to an Investment Cost Center, as these form part of UCT's reporting on Investment activity.
- Surplus budget cannot be invested. There must be a real surplus of income, arising from actual cash transactions. Amounts invoiced, but not yet paid to UCT, cannot be invested.

 **Note**

Surplus General Operating Budget (GOB) from continuing activities cannot be invested, as this is not surplus income but rather an availability to spend.

- Invested fund balances must remain in credit.
- No external UCT bank accounts are allowed, unless approved by the ED: Finance.
- Whilst there is no minimum amount, it is assumed that the amount invested will be reasonable in order to achieve a good investment return.
- An administration fee will be charged to the Investment fund based on the type of investment portfolio, and deducted off the investment income prior to transfer to the fund. This is only applicable to the Portfolio No. 2 and Cash Portfolio investments.
- When investing or withdrawing monies to and from the No. 2 and Cash portfolios, General Ledger (G/L) Account **439** must be used for both the debit and the credit entries.
- The same funds may not be invested in more than one portfolio in any one year.
- All exceptions to this policy can be motivated via [FM041](#) – Request for exceptions to finance policy.

Investment Portfolio Summary

Portfolio	Endowment		No. 2	Cash
	Capital	Income		
Fund center (* = dept code)	*900	*901	*902	*903
Investment period	Perpetuity		At least 18 months	From 3 month, to be used for a specific purpose
Typical fund source	Donations, Bequests, Gifts, Grants		Research contracts, projects, excess funds, research income & other income	General operating funds not for immediate use, excess funds or income of short term nature, research projects
Income distribution	4% real return, all residual realised profit & income after income distribution capitalised on equal basis	Used for endowed chairs, scholarships, prizes, bursaries and other similar awards	Based on realised profit & income, distributed as a percentage on the average balance for the year, in arrears - processed annually in	Interest is calculated on the previous month's average return, & is distributed monthly in arrears based on the balance at the end of the previous month
Withdrawals	None (unless approved by Donor & UCT Foundation)	As required for above usage. Otherwise 1 per annum	2 per annum, plus 1 additional if required	1 per month
NB	Any income not utilised in a particular year is automatically reinvested into the specific endowment, thereby increasing future distributions			

NOTE: Only Journals may be used with Investment fund transfers: G/L 439 for both Dr & Cr

Endowed Funds Investment Strategy (No. 1 portfolio)

- Endowed funds consist of donations, bequests and gifts to the University, and are considered restricted funds. This is where the capital is protected, and only earnings on the capital may be used to fund an activity, such as an endowed chair, prize or scholarship.
- Such funds are called endowments and all endowed funds are held on behalf of the University in a separate Trust, the UCT Foundation. The Trustees of the Foundation are independent of the University and, being a legal entity in its own right, the financial records of the Foundation are subject to independent audit.
- The Foundation's portfolio consists of many individual funds that participate in the underlying investments on a basis similar to that employed by unit trust managers.
- New funds and additions to existing funds 'buy' additional units in the portfolio.
- No capital withdrawals are allowed, unless approved by the Trustees on the request of the donor.
- Any income not utilised in a particular year and not earmarked for use in the subsequent year is automatically reinvested into the specific endowment, thereby increasing future distributions.

 **Note**

Unutilised income (in excess of R1,000) will automatically be reinvested if no response is received by Treasury annually before 15 January.

- Income is distributed to the portfolio on the basis of X cents per unit, with X being approved by the Trustees of the UCT Foundation in December each year. The income distribution policy has been firmly established as being a 4% real return. This has been

calculated by establishing a value of the Foundation's investments at the outset date (1992) and then adjusting this each year by the annual inflation rate and so establishing a computed market value on which a 4% return is based. Therefore investors can be assured that the real buying power of current distributions, being inflation linked, will be maintained into the future.

Management and the Joint Investment Committee

- The investments underlying the Foundation's portfolio are managed by established investment managers whose appointment and fees are approved by the Trustees on the recommendation of the Joint University/UCT Foundation Investment Committee (JIC). This Committee governs the investment policy within which the investment managers may operate.
- The JIC has engaged the services of a firm of actuarial consultants to advise on strategy. This firm also assists in monitoring the investment performance against index related benchmarks and against the returns achieved by similar funds monitored by the consultants.
- Funds distributed by the Foundation to the University are placed into individual accounts within the University and these are monitored by the Finance department to ensure that they are used solely for the purpose intended. Where the funds are for bursaries, these are administered by either the undergraduate or postgraduate funding office, as appropriate. Both of these offices are well versed in handling such designated funds and in reporting on their use to the donors where this is required.
- Capital buys units at the market value of the previous month. The capital balance in the SAP fund bears no relationship to the market value – the only important number is the number of units held in the investment portfolio.

Rules

- Endowed funds are invested in perpetuity.
- For each investment, there are 3 funds – 1 investment fund in the Foundation (not in UCT) plus two SAP funds – one with the notional capital (bears no relationship to the actual value in the Foundation) and one where the income is distributed.
- A linked operating SAP fund is required, and must be indicated on the FM003 form, when Endowment SAP funds are requested.
- Transfers to any other UCT investment fund, are allowed at the end of a year, with the required approvals.
- No capital withdrawals allowed, except if approved by the Trustees on request of the donor.
- Only 1 withdrawal is allowed per year from the Income fund, unless there is a requirement for the use of the income for prizes, bursaries, scholarships or similar awards.
- No investment switch is allowed, except if approved by the Trustees on request of the donor.
- Additional endowed funds will buy extra units, at the rate in the year received.
- Direct investments may only be made with the approval of Treasury Department in order to ensure units are allocated correctly.
- All applications for endowed funds must be accompanied by legally compliant documents, including motivations with documentation supporting the decision (e.g. wills, bequests)

Note

The Development and Alumni Office will issue 18A certificates for all donated monies.

No. 2 Portfolio Investment Strategy

- The No. 2 portfolio is for medium to long term Investments, where the capital may be utilised at the discretion of the fund holder and/or decision making body.
- The minimum amount that can be invested in this portfolio is R1,000.
- No. 2 portfolio funds are made up of surpluses that have built up over time, usually from research income and projects. As such, the No. 2 portfolio consists of funds which will in time be fully spent, including the initial investment.



- Funds invested in No. 2 portfolio are held by the University but are administered by external investment managers who invest them on UCT's behalf in both equities and interest bearing instruments. This relationship is governed by the Joint Investment Committee, within the mandates set by Council.
- The mandate for this portfolio is to generate income while protecting capital. Based on this, the mandated investment profile is 70% local equities, 30% bonds and cash, giving a bias towards high income generation, with the possibility of capital growth. While any investment carries risk, the risk of a capital loss is reduced. All realised capital profits (or losses) and income generated are distributed to underlying funds based on average capital invested over the year of distribution.
- Return by investment managers of No. 2 portfolio funds is based on realised profit and income, and is distributed as a percentage on the average balance for the year, in arrears. This is processed annually in December.

Rules

- The period of investment must be greater than 18 months.
- Supporting documentation, which must be attached when funds are opened, includes the following: bequest, donation, research contract, or minutes where appropriate as required per portfolio.
- Applications to invest in this portfolio must be endorsed by the Faculty/PASS finance manager, and communicated to the ED Finance, the DVC Research, and the Dean.
- A linked operating SAP fund is required, and must be indicated on the FM003 form, when No. 2 portfolio SAP fund is requested.
- Only 2 withdrawals are allowed per annum. However, 1 extra withdrawal will be considered if there is an urgent and unforeseen requirement. This requires a written motivation to the Director: Treasury and Banking.
- All withdrawals must be actioned via a journal sent to Treasury.
- Balances under R1,000 will be disinvested and returned to the linked operating fund.
- Switching of investments for manipulative intentions or speculations between the No. 2 portfolio and Cash portfolio is not allowed.
- These funds are not endowments but may be transferred to the UCT Foundation after a time, based on the appropriate decisions, and the size of the fund.
- Investment can only be effected if the fund from which investment monies are to be transferred from (i.e. the linked operating fund) is not in deficit.

Cash No. 3 Portfolio Investment Strategy

- Funds invested in the Cash portfolio are aimed at maximising the short term return for donations or research funds when the funds are not required for immediate use.
- The minimum investment allowed is R1,000.
- Principle Investigators (PIs) and Heads of Departments (HoDs) are encouraged to invest funds received by way of grants, donations or contracts, which are surplus to immediate operational requirements, in the University's cash portfolio. The investment of such funds is often a requirement of external funders.
- This portfolio is a specifically designated sub-set of the University's cash, which is invested by the Treasury section of the Finance Department within guidelines set and monitored by the JIC.
- Being a cash portfolio, the risk of capital loss is minimal.
- Interest is calculated on the previous month's average return, and is distributed monthly in arrears based on the balance at the end of the previous month.

Rules

- The period of investment must be greater than 3 months and is to be used for a specific purpose (e.g. monies received in advance of contractual obligations).
- A linked operating fund is required, and must be indicated on the FM003 form, when the Cash portfolio SAP fund is requested.
- Balances under R1,000 will be dis-invested and returned to the linked operating fund.



- Capital may be invested as and when cash is received.
- A single withdrawal per month is allowed.
- All withdrawals must be actioned via a journal (which can be multiple lines) sent to Treasury.
- Switching of investments for manipulative intentions or speculations between the Cash portfolio and No. 2 portfolio is not allowed.
- Investment can only be effected if the fund from which investment monies are to be transferred from (i.e. the linked operating fund) is not in deficit.

- Procedure**
- To request a new SAP fund, complete FM003 and forward to Treasury, NOT General Ledgers.
 - All backing documentation MUST be attached, e.g. bequest, donation, research contract, or minutes where appropriate as required per portfolio.
 - Supporting documentation (clearly stating the investment intentions) will be scanned into SAP and attached to the SAP fund, for viewing by all SAP users.
 - Records must be kept by the department, and it is essential that all investment documentation is retained for future reference.
 - The Treasury department is responsible for ensuring that all transfers in/out of investment funds are in accordance with the portfolio rules, and as such all financial transactions relating to investment activities, must be sent via Treasury for approval, before being processed.

Implementation responsibility The Head of Department (HoD) is responsible for ensuring all policies and procedures are communicated to and implemented by the responsible individual(s), including research staff. The Faculty/PASS finance manager has to ensure reasonable controls exist to support the implementation of policies, and that the supporting documentation for investment funds is retained for future reference.

Contact [Finance helpdesk](#)
021 650 2111

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