National Trust

Charity registration number: 205846

Extract of the National Trust Investment Policy Statement

1. Introduction & Investment Objectives

1.1 The National Trust is a charity incorporated under the National Trust Acts 1907 to 1971 and the Charities (National Trust) Order 2005 with the purpose of looking after places of historic interest or natural beauty permanently for the benefit of the nation, across England, Wales and Northern Ireland.

1.2 The investment objective of the Trust is to generate a return of at least inflation plus x% (net of fees) each year to fund the Trust's charitable purpose. The inflation measure most relevant to the Trust's expenditure is the Retail Price Index.

1.3 The bulk of the Trust's investment assets are held in the General Pool, a Common Investment Fund registered with the Charity Commission.

1.4 The General Pool is managed on a total return basis and therefore the investment income target set each year comprises a mixture of income and capital gains. The target is set by the Investment Committee with reference to a model known as the Yale Formula, so called because of its development for determining annual distributions by Yale University Endowment. The use of the Yale Formula by the Committee is reviewed by the Board at five-yearly intervals.

2. Governance

The Board of Trustees has delegated decision-making on investment matters to the Investment Committee whose role is to determine, review and implement the investment policy of the Trust. The Committee oversees the appointment, removal and performance of the investment consultant, the external fund managers and the custodian. This division is based upon the Board's view that it allows for efficient operation of the Trust overall, with access to an appropriate level of expert advice and service. Information about the current Committee members is provided in the Annex.

The Committee has chosen to delegate day-to-day management of the Trust's investments to a number of Investment managers. The terms of each manager's appointment are contained in the Investment Management Agreement ("IMA") agreed between the manager and the Committee. The managers' roles in practice include the responsibility to:

- Manage the portfolios of assets within the investment guidelines, objectives and restrictions set out in the respective IMA but, subject to that, exercising discretion as appropriate when investing the portfolio. The managers' discretionary powers include the exercise of rights and stewardship obligations relating to their portfolios and the exercise of voting rights attaching to holdings in all quoted companies whenever practical.
- Have regard to the need for diversification so far as appropriate and to the suitability of investments within charity commission guidelines.
- Provide the Committee with a quarterly statement of the assets and cash flows and a quarterly report on the results of past actions and any changes to

the investment process and, where possible, on corporate actions and their future policies in that regard.
- Inform the Committee of any changes in the internal performance objective guidelines of any pooled fund used by the Trust as soon as possible

3. Investment Strategy

Given the investment objectives, the Committee has agreed an investment strategy detailed in the tables below. The main features are as follows:

- To manage the General Pool on a total return basis;
- To emphasise "return generating" asset classes which may reasonably be expected to generate sustainable real returns over the long term;
- To attach less importance to "risk reducing" asset classes because of their lower expected returns;
- To reduce risk through diversification of asset classes, while accepting that volatility is the corollary of a quest for high returns;
- To employ active investment managers wherever it is reasonable to expect that the performance benefits will outweigh the additional costs therefrom.

The Committee regards the level of risk inherent in the strategy, together with the risks arising from active management, as consistent with the overall level of return and risk being targeted.

The strategic benchmark asset allocation for the General Pool, split between the major asset classes is detailed in the table below.

Working alongside this, a rebalancing policy has been introduced. This is required to cover market movements for which the regular cashflow is not sufficient to move the actual allocation close enough to the overall benchmark asset allocation. Rebalancing is expected to occur when the ranges set out in the table below are breached, though it should be noted that circumstances may periodically arise when this is not appropriate.

Asset Class	Strategic Benchmark Asset Allocation (%)	Rebalancing Range (%)
Equities	**45.0**	**-**
Global Equity	25.0	20.0 – 30.0
Global Equity (Sustainability Themed)	10.0	8.0 – 12.0
UK Small Cap	10.0	8.0 – 12.0
Private Equity[1]	**15.0**	**0.0 – 15.0**
Emerging Markets Multi-Asset	**15.0**	**12.0 – 18.0**
Absolute Return	**25.0**	**20.0 – 30.0**
Total	**100.0**	**-**

[1] Currently held in passive UK equities, awaiting investment.

4. Risk

4.1. Attitude to risk The Trust regards the investment return as a key component of the operating performance of its heritage properties and other charitable assets. This return should be sustainable over the long term and, ideally, capable of gradual growth in real terms rather than being volatile and unpredictable. A key risk to long term sustainability of returns is inflation, and assets should be invested to mitigate this risk. The Board and Investment Committee understand that this is likely to mean that investments will be concentrated in real assets whose capital value will fluctuate.

The Board and Committee are able to tolerate volatility of the capital value of the General Pool, as long as the Trust maintains the total return policy.

The Committee employs its Custodian, Northern Trust, to monitor and report on the risk profile at quarterly intervals. Two key risks which the Custodian measures are:

(1) risk the Pool loses more than 30% of its market value over 1 year
(2) risk the Pool is unable to meet the required investment return of inflation + x%.

4.2. Risk Management and Measurement The Trust aims to take on those risks for which it expects to be rewarded over time, in the form of excess returns relative to a benchmark.

5. Time Horizon

5.1. The Trust is expected to exist in perpetuity and investments should be managed to meet the investment objective and ensure this sustainability.
5.2. The Trust may therefore adopt a long term investment time horizon.

6. Responsible Investment and Corporate Governance

6.1. The Investment Committee believe that responsible investment and good stewardship can enhance long-term portfolio performance, and are therefore aligned with their fiduciary duty. Further, mitigating risk and capturing investment opportunities driven by the integration of environmental, social and governance (“ESG”) issues may have a material impact on returns across all asset classes.
6.2. The Committee have given their managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to investments.
6.3. The Trust aims to ensure that the votes attaching to its holdings in all quoted companies, both in the UK and overseas, are exercised whenever practical. The Trust’s voting policy is exercised by its managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Each manager’s policy is expected to be provided to the Committee
6.4. For those assets of the Trust invested in pooled vehicles, the Committee accept that the assets are subject to the managers’ own policies on corporate governance and ESG investment. The Committee will periodically review the policies of each pooled fund in which the Trust invests and assess whether it is comfortable with the arrangements in place, notwithstanding the fact that its ability to effect changes will necessarily be limited.
6.5. The Trust does not make any direct investments in any company where more than 10% of its turnover is derived from the extraction of thermal coal or the production of

oil from tar sands. Subject to that exception, neither the Board nor the Committee is in favour of adopting an exclusionary policy, but individual investments may be excluded from the portfolio if they are perceived to conflict with the core purpose of the Trust. Such exclusions, which are normally at the recommendation of the Committee, must be approved by the Board.

6.6. The Trust expects active managers who are appointed to run segregated mandates for the General Pool to integrate material factors, including ESG considerations, into the selection, retention and realisation of all fund investments. The Trust expects this to be done in a manner which is consistent with the managers' investment objectives, legal duties and other relevant commitments.

6.7. The Committee is keen to foster best practice in terms of shareholder engagement and voting. It therefore expects its managers to discharge their responsibilities in accordance with current best practice, including the UK Corporate Governance Code and UK Stewardship Code, as well as the UN Principles for Responsible Investment where possible. The Committee will periodically review the corporate governance policies of each of its managers and agree that they are appropriate.

6.8. The Trust's ESG policy is reviewed regularly by the Board and updated as appropriate to ensure it is in line with good practice.

7. Management, Reporting and Monitoring

7.1. The Trust has appointed several managers to manage the assets of the General Pool on a discretionary basis, in line with this policy statement. Custody, performance measurement and investment accounting for the investment mandates are provided by Northern Trust as Custodian. The managers are required to produce portfolio valuations monthly and detailed investment reports on a quarterly basis. The Trust has nominated a list of authorised signatories, two of whom are required to sign instructions to managers.

7.2. The Committee is responsible for agreeing strategy and monitoring the investment assets, and for setting and monitoring the risk tolerance of the Pool. The Committee meets quarterly to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks and against the target return of inflation plus x% over the long term.

7.3. Each manager is required to present to the Committee at least once a year and at such other times as the Committee deems appropriate.

7.4. The Committee will report formally to the Board of Trustees once a year. This report should include a review of asset allocation strategy, performance, risk profile and consistency with the long term investment objective.

8. Approval and Review

This Investment Policy Statement was prepared by the Investment Committee of The National Trust to provide a framework for the management of its investments. The Statement will be reviewed regularly to ensure continuing appropriateness.

This Statement will also be reviewed without delay after any significant change in investment policy.

Annex

MEMBERS OF THE INVESTMENT COMMITTEE

Nick Sykes (Chairman) Became Chairman of the Investment Committee in December 2017, having recently retired after a 20-year career at Mercer where he was a partner and European Director of Consulting. Before joining Mercer he was Head of UK Equities at Baring Asset Management. He is Chairman of the Oxford University Staff Pension Scheme and has also recently been appointed as a member of the National Trust for Scotland's Investment Committee.

Orna NiChionna Joined the Investment Committee in June 2014, following her appointment to the Board of Trustees in December 2013. Appointed Deputy Chairman of The National Trust in January 2015, she is also the Soil Association's appointee on the National Trust's Council. She was Chair of the Soil Association from 2007 to 2013. She is also a Trustee of Sir John Soane's Museum. A former Principal at McKinsey & Company, she is currently a non-executive director of Royal Mail plc, of Saga plc and of Burberry plc.

David Smart An adviser to the United Nations Joint Staff Pension Fund for 28 years, formerly Co-Chief Executive of Franklin Templeton Investment Management Limited, currently an advisor to Beazley PLC, a member of UNRWA investment advisory committee and a trustee of B-eat the UK's leading eating disorder charity. He was Chairman of the Investment Committee from 2008 to 2017, and is a Trustee of The National Trust.

Neil Honebon Joined the Investment Committee in February 2008. Formerly a Director and Chief Investment Officer of Fleming Family and Partners Asset Management, he has over 30 years' experience of investment analysis and research and is also a non-executive director of Murray Income Trust plc.

Sir Edward Greenwell Became a member of the Investment Committee in July 2012. He is a former Trustee of the National Trust and Chairman of the Rural Housing Trust and was President of the Country Land & Business Association from 2001 to 2003.

Andrew Fleming Joined the Investment Committee in January 2014. He is Chief Executive of Waverton Investment and was previously Chief Executive of Kames Capital. A former Chief Investment Officer at ABN Amro Asset Management and Head of Equities at Gartmore Investment Management plc, he is currently Chairman of JP Morgan Japan Investment Trust plc.

Victoria Sant Joined the Investment Committee in January 2014. A senior adviser to the Investor Forum, she was previously an investment manager at the Wellcome Trust, where her responsibilities included managing relations with the Wellcome Trust's external equity fund managers and corporate governance. She is also a non-executive director of the Henderson Smaller Companies Investment Trust plc and has recently been appointed as a member of Ownership Capital's Advisory Committee.