

Treasury Management and Ethical Investment Policy

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Date : March 2026

Version: 5

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1. Introduction

- 1.1. This policy sets out the practice governing London Metropolitan University's treasury management activities, as agreed by the University's Board of Governors.
- 1.2. Treasury management encompasses the management of the institution's cash flow, banking, and capital market transactions, the effective control of risk associated with these activities, and the pursuit of optimum performance consistent with that risk.
- 1.3. The University's Treasury Management Objectives are;
 - To effectively identify, manage and control treasury risk for assets held in the short to medium term (0-5 years)
 - To manage current account balances so that appropriate funds are available to meet day to day operational expenditure and working capital requirements
 - to safeguard University cash balances through effective management and control of funds
 - to ensure banking arrangements are secure and represent good value for money
 - to optimise returns on funds under investment in the short to medium term within the constraints and risk tolerances established by this Policy
 - to obtain approval from the Finance and Resources Committee and the Governing Body for the financing of capital projects in accordance with the delegated authority limits as set out in the Financial Regulations
 - obtaining approval by the Governing Body for all borrowing
- 1.4. Funds may only be placed/invested with institutions approved by the Finance and Resources Committee as part of an approved counterparty list, or otherwise directly approved by the Committee. Funds may be invested either directly by the Finance Department treasury management function, or via a Finance and Resources Committee approved manager.
- 1.5. The University's banker must be appointed by the Governing Body (see 3.7).
- 1.6. The establishment of any new banking facility must have the prior approval of University's Governing Body.
- 1.7. The allocation of funds across the agreed asset classes and solutions must comply with the requirements of this policy.
- 1.8. Borrowing and other capital financing requirements, including PFI/service concession finance must have the prior approval of the Finance and Resources Committee and the Governing Body. Where appropriate the approval of the OfS must also be obtained.
- 1.9. The treasury management function may only be undertaken in the University's Finance Department under the oversight of the Chief Operating Officer. Treasury activities must comply with the financial regulations and the requirements of this policy.
- 1.10. The Chief Operating Officer shall submit to the Finance and Resources Committee for approval an annual treasury management plan, together with updates on progress against the plan within the Financial Management Report – quarterly forecasts.
- 1.11. This policy is applicable to the University and was approved by the University's Governing Body on 23 November 2022.

2. Cash Management

- 2.1. Cash management is aimed at: -
 - ensuring the timely receipt of funds due to the University
 - ensuring that sufficient funds are available to meet commitments as they fall due, and
 - maximising funds available for investment.
- 2.2. The University shall ensure that all debts are collected in a timely manner, and creditors are paid in the most efficient manner when it is optimal to do so.
- 2.3. The University shall produce quarterly and annual cash forecasts to identify the availability of funds for investment. It must also make estimates of funds available for shorter periods (e.g., overnight) to maximise funds placed under investment.
- 2.4. Adequate information on investment rates must be obtained by the treasury management function to inform its investment decisions.

3. Management Of Risk

- 3.1. To minimise the risk of loss, the University must ensure that: -
 - funds are placed with financially strong institutions that meet minimum credit rating requirements
 - these institutions are approved by the Finance and Resources Committee as part of approved counterparty arrangement or otherwise approved directly by the Finance and Resources Committee
 - investments are in accordance with its asset allocation strategy (see 5 below)
 - the treasury management function is undertaken by authorised Finance staff, or otherwise by third party broker/cash manager(s) approved by the Finance and Resources Committee

Instant access accounts

- 3.2. A minimum balance of £1m should be held on instant access, in either:
 - A fixed interest-bearing current account with Barclays Bank Plc; and/or
 - A Federated Investors sterling liquidity fund.
 - A HSBC Sterling ESG Liquidity Fund
 - Investec/ Rathbones Wealth Management
- 3.3. Sterling funds held with Barclays clearing account will be swept to interest-bearing accounts overnight earn interest at Bank of England base rate plus 0.5%.

Term deposits

- 3.4. Funds not held in instant access or clearing accounts are placed on either fixed term deposit accounts for period not exceeding 12 months or on notice accounts whereby the period of notice does not exceed 12 months. The University ensures competitive rates for deposits obtained by comparing rates quoted by its broker (currently R.P Martin) with published daily rates from other market sources e.g., ICAP Plc.
- 3.5. Direct dealing arrangements for term deposits have also been set up with Santander Corporate Banking, Lloyds Bank Plc and Bank of Scotland.
- 3.6. All deposits are placed by staff approved by the Chief Operating Officer and counterparties are notified of those authorised to act on the University's behalf.
- 3.7. Counterparty ratings are monitored closely, and brokers provide market information daily. All deposits are recorded, and a statement of each deposit is provided to the Chief Operating Officer on the day of the deposit.

Placement criteria

- 3.8. Deposits may only be placed with organisations that meet the following minimum credit ratings, or an approved Building Society. These are for all deposits regardless of term.
- 3.9. Organisations other than approved Building Societies must meet at least 2 out of the following long term credit ratings (Including counterparties who do not have their own rating but who are wholly owned and 100% guaranteed by their parent, providing the parent meets the rating listed above):
- FITCH IBCA A (High credit quality)
 - Moody's A2 (Low credit risk)
 - Standard & Poor's A (Strong commitment)
- 3.10. Building Societies, apart from the Nationwide, are not given credit ratings by the rating agencies. The Building Societies that the University is using are strongly monitored and regulated by the FSA (Financial Services Authority) and FCA (Financial Conduct Authority). The Bank of England's Prudential Regulation Authority also runs regular stress and scenario testing on Building Societies. The following Building Societies may be used:
- National Counties Building Society
 - Nationwide Building Society
 - Newcastle Building Society
 - Nottingham Building Society
 - Principality Building Society; and
 - West Bromwich Building Society.

Counterparty limits

- 3.11. To minimise exposure to the failure of any single counterparty, deposits with individual counterparties are limited to:
- Instant access Federated investors sterling liquidity funds: 30% of the minimum forecast cash balance over the following 12 months at the time of placing the deposit or £15m, whichever is the greater.
 - A separate clearing limit of £20m (to include all instant access accounts)
 - Other placements: 20% of the minimum forecast cash balance over the following 12 months at the time of placing the deposit or £10m, whichever is the greater.
 - To avoid exposure to any single country risk, the total value of deposits placed with counterparties based in a single non-UK country is £5m.
- 3.12. The University's main banker (currently Barclays Bank) must meet the minimum credit rating thresholds but may temporarily exceed the related maximum investment thresholds set out in 3.3 above to facilitate day to day operations.
- 3.13. The University's appointed Investment Manager, Investec must place funds only in companies which meet the minimum placement criteria as stated in 3.9. Investec is not credit rated.
- 3.14. Where the credit rating of a bank or other financial institution falls below the minimum rating in 3.3 above, the Chief Operating Officer must inform the Finance and Resources Committee at its next meeting, or if circumstances dictate the Chair of the Finance and Resources Committee at an earlier time.
- 3.15. Short term investments may only be placed with financial institutions/banks on a counterparty list approved by the Finance and Resources Committee.
- 3.16. The University's banker (currently Barclays) must be appointed by the Governing Body.

- 3.17. The Chief Operating Officer shall put in place the necessary arrangements to ensure that treasury management activities are undertaken by authorised staff within the Finance Department only and that proper records are kept of funds under investment. These shall include the relevant authorisation levels for the reinvestment of funds.

Foreign currency management

- 3.18. The university has net inflows of both Euros and US dollars and has accounts with Barclays denominated in those currencies, through which all Euros and US dollar transactions are channelled.
- 3.19. Funds in excess of those required for working capital are converted to sterling at spot rates when sufficient balances have accumulated, and exchange rates are favourable. The business case for use of forward exchange contracts will be reviewed and, if recommended, brought to the Committee for approval, should any currency transaction with a value of over £1m be proposed.

4. Arrangement For Investment of Funds

- 4.1. Funds may be invested by: -
- the Finance Team's treasury management function in approved bank and building society deposits.
 - an appointed Cash Manager. Funds may be placed with an approved cash manager or broker who makes day to day decisions on the placement of funds. Funds may only be placed with approved institutions on the approved counterparty list.
 - an appointed Investment Manager who also makes day to day decisions on the placement of funds in a diversified portfolio of investments. Funds may only be invested in permissible asset classes, as outlined in section 5.
- 4.2. Where the credit rating of a bank/financial institution falls below the minimum in 3.2 above, the Chief Operating Officer will determine whether the deposit(s) with the institution(s) in question are held to maturity.

5. Asset Allocation

- 5.1. Funds available for investment may be invested in: -
- Cash or near cash instruments being deposits with approved banks, building societies and the Post Office; treasury bills
 - UK government securities, high credit quality international sovereign securities & supranational bonds
 - Local authority bonds
 - Money Market Funds & Cash Plus Funds
 - Structured Notes
 - Diversified Bond Segregated Portfolios or Funds
 - Diversified Multi-Asset Class Segregated Portfolios or Funds
- 5.2. Funds may be placed in cash or near cash instruments which are highly secure, transparent and offer varying degrees of liquidity, such as notice accounts, instant or term deposits, or certificate of deposits issued or guaranteed by approved banks, building societies and the Post Office with these investments denominated in sterling, US\$ or euros.
- 5.3. Funds may be invested in high quality sovereign, supranational, agency and provincial bonds (SSA's) which offer diversification, liquidity and yield alternatives to cash. Such assets include treasury bills, UK government securities, overseas developed government bonds, supranational bonds and local authority bonds.

- 5.4. Money Market Funds and Cash Plus Funds offer high degrees of liquidity and counterparty diversification, with a typically high aggregate credit quality.
- 5.5. Structured Notes are investment products designed to offer an alternative risk/return profile for treasurers to potentially achieve diversified and enhanced returns versus traditional asset classes. They can offer full capital preservation or significant downside protection.
- 5.6. Bonds offer higher investment returns than available from bank deposits with the potential for modest capital growth. However, if the market price of the bond is marked down because of underlying financial under-performance of the issuer, or where market yields are increasing, they can result in capital losses when sold
- 5.7. Diversified Bond portfolios and funds are solutions with an underlying investment in a portfolio of bonds/fixed income securities. These strategies are professionally managed, and risk is spread across several issuers, sectors and geographies.
- 5.8. Diversified Multi-Asset Class portfolios and funds are solutions with an underlying investment in a broad portfolio of different assets. These solutions are professionally managed to a risk profile, time horizon and investment objective consistent with the University's risk appetite and return ambitions over the medium term.

6. Ethical Investment Policy

- 6.1. The University routinely invests funds with third party organisations through the regular investment of surplus funds and endowments. The Ethical Investment Policy of London Metropolitan University is intended to be consistent with the duty to secure maximum returns from the investment of such funds.
- 6.2. Through the work of its fund managers, the University seeks to achieve maximum return from a set of investments that have been selected in accordance with our Policy. The University expects its investment managers, as part of their normal investment research and analysis process, to take account of social, environmental, ethical and governance considerations in the selection, retention and realisation of investments. The University is committed to transparency about how and when investment decisions were made.
- 6.3. Wherever possible the University will make such investments in ways that are consistent with the mission and values of the University.
- 6.4. The University will strive to invest in companies where the activities of the company are, on ethical grounds, consistent with the educational and/or research objectives of the University even though this may reduce returns. No direct investments will be made in:
- 6.5. Tobacco – Any companies involved in producing and distribution of tobacco products or any companies involved in the manufacture of cigarettes and other tobacco products.
- 6.6. Armaments – Companies producing weapons and weapon systems, including cluster munitions and anti-personnel landmines. Companies whose main business includes the supply of strategic components (such as weapons guidance systems), and services are also excluded.
- 6.7. Human Rights & Labour standards – Any companies which condone the practices of human trafficking, slavery or forced labour. The University will not knowingly invest directly or indirectly in organisations that breach human rights or that breach the Modern Slavery Act 2015. There are many companies and organisations which have historic links to slavery, however the University has been assured, where applicable, that funding for initiatives within the Black communities both in the UK and globally is provided now and in the future for reparations.

- 6.8. Oil & Mining Companies – Any companies involved in Thermal Coal, Oil Shale & Tar Sands production which is considered to cause pollution.
- 6.9. The University will also consider the published guidance of the Charity Commission on ethical and socially responsible investment of charitable funds. In addition, the UKSIF (UK's membership network for sustainable and responsible financial services) and EIRIS Foundation (a charity that supports ethical investment) guidance is also taken into consideration. EIRIS researches the social and ethical aspects of companies and provides other charities with information and advice to enable them to choose investments which do not conflict with their work.
- 6.10. UKSIF promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment.

7. Borrowing

- 7.1. All major capital projects must be approved by the Governing Body. This must include information on the project life, its cash flows, the rates used in discounting these, its financing, and the cost of finance.
- 7.2. All borrowing (for whatever purpose) must have the prior approval of the Governing Body.

8. Reporting

- 8.1. The Chief Operating Officer will submit to the Finance and Resources Committee the annual treasury management plan for the forthcoming financial year, which is typically the June meeting.