



UMT ENDOWMENT FUND  
**INVESTMENT  
POLICY  
STATEMENT**



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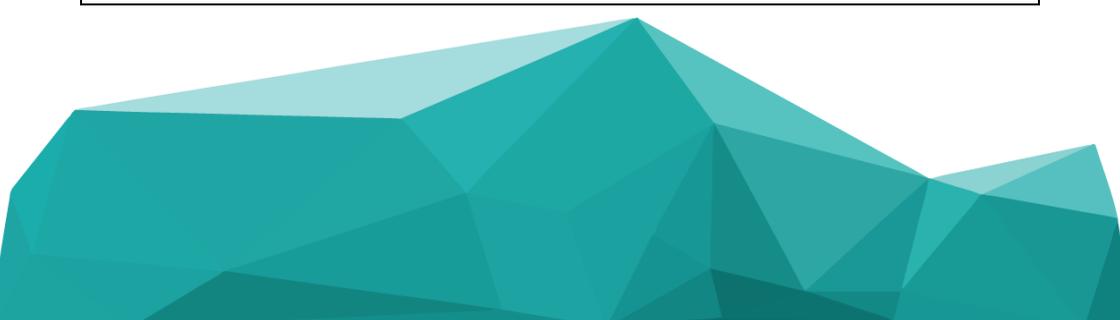
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UMT Endowment Fund  
Investment Policy Statement  
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# UEF INVESTMENT POLICY STATEMENT

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## 1 INTRODUCTION

This Investment Policy Statement (“IPS”) applies to the endowment of Universiti Malaysia Terengganu (“UMT” or the “University”). The IPS is established to describe the investment policies of UMT Endowment Fund (“Fund”), in line with the University Transformation Programme (UniTP) Purple Book by the Ministry of Higher Education Malaysia.<sup>1</sup>

The statement is not a contract; it is a summary of an investment philosophy that serves as a guidance for the Fund Committees and Investment Manager(s). The endowment consists of restricted funds (where donors assign a specific purpose for their gifts) and unrestricted funds. The minimum amount, terms and conditions in which the donations can be made for these purposes are outlined in the Terms of Reference (TOR).

The Fund provides financial support for the operation of the University, including endowed Chair, Professor and Scholarships. The IPS is designed to align the current goals of the University with its future needs, by earning sufficient short-term and long-term returns.

## 2 ROLE OF THE UMT ENDOWMENT FUND COMMITTEES

### 2.1 INVESTMENT AND ENDOWMENT COMMITTEE

Section 3(3)(c) of the Constitution of Universiti Malaysia Terengganu provides that, the University shall continue to have perpetual succession and continue to have full power and authority under such name –

*for the purpose of this Constitution, and subject to the statutes, rules and regulations to purchase any property,*

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<sup>1</sup> It is noted that one of the good practices of managing endowment funds is to “ensure that investment policy is current and that it complies with established rules of conduct for managing institutional funds, appropriating funds, and also standards for delegating management and investment functions to outside agents.” Source: Enhancing University Income Generation, Endowment & Waqf, UniTP Purple Book (Abridged Version), Ministry of Higher Education Malaysia, 2016 (pp. 16).

*moveable or immovable, and to take, accept and hold any such property which may become vested in it by virtue of any purchase, or by any exchange, grant, donation, lease, testamentary disposition or otherwise.*

Further Section 4(1)(l) of the Constitution gives the University power,

*to invest in land or securities (whether authorized as trustee investments or not) such funds as may be vested in it for the purpose of endowment, whether for general or special purposes, or such other funds as may not be immediately required for current expenditure, with power from time to time to vary any such investment and to deposit any moneys for the time being uninvested with any bank established in Malaysia either upon fixed deposit or upon current account.*

In view of the above, the University Board of Directors delegates its duty to the Investment and Endowment Committee (“Committee”) for investment decisions and transactions relating to the Fund.

The Committee consists of the Vice Chancellor (Chair of the Committee), a University Board of Director(s), at least two (2) external parties from the industry with broad and extensive experience in investments, Deputy Vice Chancellors, Assistant Vice Chancellor, Treasurer, Director of Development and Assets, UMT Fund Manager, and Deputy Treasurer (Secretary of the Committee), and includes ex-officio members who are Directors or Heads of relevant Responsibility Centres and Chief Executive Officer of UMT Jaya Holdings Sdn Bhd.

The Committee, through its Investment and Endowment Committee Meetings, reviews the University’s current and potential investments, decides on the acceptance or rejection and the need to rebalance any investment, and execute any

investment decisions rated 2★ and/or above as ranked by the university, worth equal to or lower than 30% of the Fund and limited to RM1 million per instrument, other than those stated in Section 2.3. Any investment decision worth over the prescribed limit and/or rated 1★ would require the approval from the University Board of Directors.

## 2.2 UMT FUND MANAGER

The Committee authorizes the UMT Fund Manager (“Manager”) in recommending any investment decisions in risk-free and non-risk-free instruments. The manner in which such decisions can be approved is described in Section 2.3.

The Manager is primarily responsible for managing the Fund by identifying investment instruments via market research and industry linkages, determining an appropriate investment risk/return tradeoff through asset allocation policy, ensuring legal and Shariah-compliance of the investments, and reporting the Fund performance to the stakeholders.

As such, the Manager must perform his/her professional duties in accordance with the relevant laws, regulations, ethical and technical standards, and therefore must possess sufficient knowledge and experience in the financial investment field. The Manager must have at least two (2) years of professional working experience<sup>2</sup> in the finance industry, and hold relevant academic<sup>3</sup> and/or professional finance qualifications as stated in the TOR.

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<sup>2</sup> Finance industry professional experience refers to positions that require technical knowledge and involve with investment decision-making such as (but not limited to) investment banker, fund or portfolio manager, stock broker, remisier, dealer, market researcher and financial analyst. This does not include administrative, supporting or marketing roles, for instance clerks and unit trust agents or managers.

<sup>3</sup> A finance degree (whether a bachelor or master degree) is defined as a degree in finance, financial analysis, financial economics, financial studies, or similar academic programmes.

## 2.3 ENDOWMENT AND INVESTMENT SECRETARIAT

The Endowment and Investment Secretariat (“Secretariat”) consists of the Deputy Treasurer, officers from the Office of the Treasurer, and finance lecturers including those with relevant finance industry experiences. The Secretariat is responsible for working with the Manager to achieve the investment objectives of the Fund.

Through the Endowment and Investment Secretariat Meeting, the Secretariat is also responsible for recommending any investment decision (buy and sell) worth equal to or lower than RM500,000 per instrument. Total investments allowed at any given time are limited to a maximum allocation of 15% of the Fund. This decision is limited to 3★ rated investments as ranked by the university, and requires both the recommendations by the Manager and majority of the Secretariat, subject to the approvals from both the Vice Chancellor and Treasurer.<sup>4</sup>

For existing investments worth over 15% of the Fund and/or RM500,000 per instrument which require immediate actions such as disposing of the investment and rebalancing of the portfolio, the Manager and Secretariat can also recommend such actions without going through the Investment and Endowment Committee Meeting, subject to the approvals from both the Vice Chancellor and Treasurer.

## 2.4 INVESTMENT MANAGER

The Committee and/or Secretariat may delegate some or all of its responsibilities for investing the Fund to one or more external Investment Managers. These Investment Managers are duly appointed by the Committee and/or Secretariat and

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<sup>4</sup> These restrictions are not applicable to risk-free assets such as Fixed Deposit/ REPO, Treasury Bills and similar instruments.

selected with due care in accordance with the University's by-laws and all applicable laws.

The Investment Manager must be either (1) registered under the Capital Markets and Services Act 2007 (CMSA), (2) a bank, as defined in the relevant Act, or (3) such other person or organization authorized by applicable law or regulation to function as an investment manager. An Investment Manager include persons who are licensed representatives, as well as organizations such as banks, full-fledged and boutique asset management firms, and mutual funds / unit trusts companies.

Consistent with the UMT Investment Guideline (2011), the criteria for selecting investment managers are as follows:

- Established and financially strong company
- Experienced top management and investment staffs, as well as capable research team
- Good and consistent investment track record
- Transparent investment process
- Consist of internal and independent external auditor
- Timely investment report and immediate updates for any unfavourable events
- Reasonable fees and other charges

### **3 INVESTMENT OBJECTIVE**

The primary objective of the endowment is to provide sufficient annual cash flow to meet current and future expenditure of the University. The investment time horizons reflect the types of endowments, specifically long-term and short-term for true and term endowments, respectively. The endowment principal can be protected (capital preservation) or expended (capital liquidation), depending on the types of endowment and funding policy as determined in the TOR.

To achieve its investment objectives, the Fund utilizes an investment framework that focuses on total return (capital gains and income),

subject to an acceptable level of risk. In order to enhance long term total return and decrease overall portfolio volatility, the Fund will be diversified across several asset classes with low positive or negative correlations of asset returns to reduce unsystematic risk.

## 4 PORTFOLIO INVESTMENT POLICIES

### 4.1 ASSET ALLOCATION AND DIVERSIFICATION POLICY

In order to yield acceptable risk/return tradeoff by reducing the correlations between the assets (and asset classes), the Fund shall be allocated according the following portfolio weights:

ASSETS CLASS	POLICY TARGET AND RANGES		
	TARGET	LOWER BOUND	UPPER BOUND
EQUITY	15%	0%	30%
FIXED INCOME	25%	0%	35%
ALTERNATIVE INVESTMENT	10%	0%	20%
CASH / FIXED DEPOSIT	50%	40%	100%
<b>TOTAL</b>	<b>100%</b>	-	-

The policy target is subject to investment capacity such as (but not limited to) fund size, instruments availability and their requirements. The assets include stocks, fixed income such as sukuk, alternative investment (including commodities, private equity, hedge funds and real estates) and fixed deposit. The target asset allocation is expected to provide proper diversification across and within each asset class. Investments in mutual funds will be treated as within the same security for the corresponding asset classes, and the weight will reflect these classes accordingly.

Upper bounds are placed to reduce portfolio risk associated with excessive concentrations in any asset class. Apart from cash / fixed deposits, passively managed investment vehicles

seeking to match the returns of a broadly diversified market index, or discretionary portfolio management, the following guidelines apply:

- Each single security, fund, industry and/or sector shall be within acceptable weight of the total portfolio value, in order to avoid unnecessary costs associated with small holdings and to limit excessive exposure
- Due to illiquidity, valuation difficulty and low access to information, alternative investments are restricted to
  - at most 10% real estate investments for income generating assets (e.g. rental) and/or 5% for non-income generating assets
  - the ceiling of 1% for each other alternative investment

## 4.2 PORTFOLIO MONITORING AND REBALANCING

Due to market forces, the actual asset allocation will vary from time to time from its established portfolio weights, owing to the fluctuation in returns of the asset and sub-asset classes. The portfolio will be monitored and rebalanced to its target asset allocation under the following procedures:

- The Fund Manager will review the portfolio semi-annually on 30<sup>th</sup> June and 31<sup>st</sup> December, to determine the deviation from the target allocations. Unless the deviation is within the lower and upper bounds and appraised to be reasonable, the portfolio will be rebalanced closer to the target if any asset class deviates by over 5% from its established weightings
- The Fund Manager shall act within a reasonable period of time to evaluate deviation from these ranges and can make rebalancing recommendation at any time
- The Investment Manager must provide investment reports on a monthly basis or more frequently if

requested by the Committee, Fund Manager or the Secretariat

### 4.3 OTHER INVESTMENT POLICIES

In line with the UMT Investment Guideline (2011), the portfolio, Fund Manager and Investment Managers are prohibited from doing the following:

- investing in non-Shariah-compliant investments,
- purchasing securities which directly or indirectly in opposition to the University philosophy, objective or interests, and
- participate in derivative and currency trading.

In addition to the above,

- securities must not be purchased on margin,
- transactions must be executed on a long only basis (i.e. short sales are not allowed), and
- where external expertise is required (for example, in valuing real estate), the external party must hold appropriate license and/or qualification as required by Law and relevant Act, and he/she must be independent from any members of the Committee or Secretariat, both in appearance and in fact, as to ensure no conflict of interest. See Section 6 below.
- UMT aims to promote sustainable development, manage environmental, social and governance (ESG) risks and contribute to a more sustainable and resilient future.
- UMT will always provide assistance to businesses that successfully manage the environment, social issues, and governance (ESG), as these investments can provide significant long-term returns for all parties involved.

## 5 PERFORMANCE MEASUREMENTS AND REPORTING

### 5.1 PERFORMANCE BENCHMARK

The Fund performance will be gauged against suitable sets of benchmarks weighted according to the target asset allocations stipulated in Section 4.1 above. For example, depending on the portfolio components, the following benchmarks can be applied.

- Equity: FTSE Bursa Malaysia EMAS Shariah Index
- Fixed Income: Thomson Reuters BPA Malaysia Sukuk Index
- Alternative Investment: Malaysian Consumer Price Index (CPI) (the inflation rate)
- Cash / Fixed Deposit: Average Shariah-compliant fixed deposit rates of the top-5 largest banks in Malaysia

To allow for comparison between the Fund portfolio against those in the industry, its performance (returns and other measures) will also be compared with a list of actively managed Shariah-compliant mutual funds in Malaysia, according to its mean, maximum, minimum and standard deviation.

### 5.2 PERFORMANCE MEASURES

The portfolio will be measured according to total returns (profit or loss) in Ringgit Malaysia and percentage forms, as well as the Sharpe Ratio for appraising its risk/return tradeoff. Other performance measures such as the Sortino Ratio and Maximum Drawdown can be applied to provide robustness to the results.

### 5.3 REPORTING

Fund performance and distribution reports shall be provided by the Fund Manager to the Investment and Endowment Committee on a quarterly basis. The Manager is expected to

attend the Investment and Endowment Committee Meetings and present the portfolio structure, investment strategies and portfolio performance. The reports will be available to donors and the public on a semi-annual basis on the UMT Endowment Fund official website at <http://endowment.umd.edu.my>.

## 6 CONFLICT OF INTEREST

All members of the Investment and Endowment Committee and the Endowment and Investment Secretariat are required to perform his/her duties solely in the interest of the University and for the exclusive purpose of meeting the financial needs of the University. Each member must disclose any actual conflict, potential conflict, or may be perceived to conflict, with the interests of the University.

A conflict of interest could arise in relation to any of the following (but not limited to): (1) directorships or other employment; (2) interests in business firms or companies; (3) share ownership; (4) beneficial interests in trusts or wills; (5) professional associations or relationships with the other organizations; and (6) personal associations with other groups or organizations, including family relationships.

If such actual conflict, potential conflict, or perceived conflict, arises, the member must present a written disclosure of such conflict and he/she will not be eligible to vote on the acceptance or rejection of any investment project in which such conflict will arise, or expected or perceived, to arise.

## 7 AMENDMENT

The Investment and Endowment Committee reserves the right to amend this Investment Policy Statement at any time. Any revision to the IPS will be notified via the UMT Endowment Fund official website at <http://endowment.umd.edu.my>.







**Endowment and Investment Secretariat**

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