

# INVESTMENT POLICY

<b>Approved by</b>	Council
<b>Date of Next Review:</b>	August 2006
<b>Contact Officer:</b>	Director of Financial Services

## 1. OVERVIEW

- 1.1. This investment policy includes guidelines for asset allocation, funds management, portfolio management, reports on investment performance and market benchmarks to assist in tracking and adjusting investment performance targets.

## 2. THE SCOPE OF THE INVESTMENT POLICY

- 2.1. The University has authority granted by the NSW Treasurer to exercise investment powers under Part 4 of Schedule 4 of the Public Authorities (Financial Arrangements) Act 1987. The University's investing activities are constrained by any limitations, caveats or restrictions specified by the Treasurer or by any relevant regulation. Any such limitations have been incorporated in Section II below.

## 3. THE PURPOSE OF THE INVESTMENT POLICY

- 3.1. This investment policy aims to:
  - 3.1.1. Establish a clear understanding of the University's investment goals and objectives.
  - 3.1.2. Define and assign responsibilities for investing activities.
  - 3.1.3. Offer guidance and define limitations regarding the investment of University assets.
  - 3.1.4. Manage University assets according to prudent standards and consistent with the laws of the State of NSW.
  - 3.1.5. Establish the relevant investment horizon for which the assets will be managed.
  - 3.1.6. Establish a basis for evaluating investment results.

## 4. DELEGATION OF AUTHORITY

- 4.1. The assignment of responsibility for investment decisions in the University are as follows:
  - 4.1.1. The Administrative Committee is responsible to the University Council for monitoring the investment management of University funds. The Committee must approve the appointment of any

investment manager. The Committee then monitors the performance of investments and of investment managers.

- 4.1.2. Delegated officers of the University participate in: the formulation and execution of investment policy, objectives, and guidelines; evaluating investment managers; reviewing such managers over time; measuring and reporting investment performance; and other tasks as deemed appropriate. They execute day to day financial transactions within delegations and consistent with the provisions of this policy. The delegations from Council that relate to investment activity are Schedule 1 of this policy.
- 4.1.3. Investment Manager(s) are designated external entities with discretion to purchase or sell, in the University's name, the specific securities that will be used to meet investment objectives. The approved investment managers are specified in Schedule 2 of this policy.
- 4.1.4. The Investment Advisory Committee has expertise in investment management that can be drawn on by the University. Its terms of reference are specified in section 14 of this policy.
- 4.1.5. Arrangements with any external body or party must be in writing, comply with the provisions of this policy and be signed on behalf of the University by persons with delegated authority.

## **5. ASSIGNMENT OF RESPONSIBILITY**

- 5.1. The Administrative Committee is responsible for the monitoring of investment activity. The specific responsibilities of the Administrative Committee relating to investment management include:
  - 5.1.1. Approving investment policies including objectives and guidelines that will direct investment activities.
  - 5.1.2. Approving the appointment of external investment professionals specifically including Investment Manager(s).
  - 5.1.3. Monitoring the performance of the Investment Manager(s) to assure adherence to policy guidelines and to monitor investment performance.
  - 5.1.4. Monitoring control procedures: For example, in replacing Investment Manager(s) due to fundamental change in investment management process, or failure to comply with provisions of this policy.
- 5.2. Each Investment Manager appointed by the University must acknowledge, in writing, its acceptance of responsibility for investing University funds and agree to comply with the requirements of this policy. These terms of appointment of each Investment Manager will allow the investment manager discretion to make investment decisions for the assets placed under its jurisdiction, while observing and operating within this policy. Specific responsibilities of the Investment Manager(s) include:
  - 5.2.1. Discretionary investment management including decisions to buy or sell individual securities, either directly and/or via specialist investment managers, and to alter asset allocation within the limitations set out in this policy.
  - 5.2.2. Reporting, on a timely basis, monthly investment performance results.

- 5.2.3. Providing monthly valuation of the investment portfolio based on the previous month's closing prices.
- 5.2.4. Communicating any major changes to economic outlook, investment strategy, or any other factors that may affect investments, or investment objectives.
- 5.2.5. Informing the University regarding any qualitative change in the investment management organisation: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

## **6. GENERAL INVESTMENT PRINCIPLES**

- 6.1 Investments shall be made solely in the interests of the University.
- 6.2 Investments shall be made with care, skill, prudence, and diligence.
- 6.3 Investment of funds shall be so diversified as to minimise the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
- 6.4 The University may employ one or more investment managers to attain its investment objectives.
- 6.5 Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

## **7. INVESTMENT OBJECTIVES**

- 7.1. The primary objectives in the investment of assets shall be:
  - 7.1.1. Bank Account: To provide absolute security and accessibility for regular transactions.
  - 7.1.2. Cash Portfolio: To provide a high degree of security and accessibility and a competitive interest rate.
  - 7.1.3. Long Term Portfolio: To exceed the target real rate of return (see below) over rolling three-year periods.

More specifically:

- 7.1.4. Rate of Return - To equal or exceed a return (before fees) of:
  - Bank Account: a competitive interest rate relative to similar banking facilities in the market.
  - Cash Portfolio: the UBS Warburg Australian Bank Bill Index over rolling one year periods.
  - Long Term Portfolio: growth in the Consumer Price Index (CPI) plus 2% p.a. over rolling three-year periods; and
  - The performance of a composite benchmark based on the strategic allocation to each class of investments and the benchmark for each asset class, over rolling three-year periods.
- 7.1.5. Income and Growth - To achieve a balanced return of current income and modest growth of principal.

- 7.1.6. Long-Term Growth of Capital - To emphasise long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index.
- 7.2. Investment return is to be measured on the basis of total return; that is, the aggregate return from capital appreciation and dividend and interest income.
- 7.3. Asset class benchmarks are to be agreed with the investment managers(s) as part of the written contract with them and reviewed in terms of the contract.

## **8. VOLATILITY OF RETURNS**

- 8.1 In order to achieve its objectives, it is understood that investment returns will experience volatility and fluctuations in market value. The University will tolerate volatility as measured against the volatility of a comparable market index in each asset class and a composite index based on the strategic allocation to each asset. The indices (eg. the ASX All Ordinaries index) used as a measure of an investment manager's performance will also be used to benchmark what is allowable volatility (risk).

## **9. LIQUIDITY AND CASH MANAGEMENT**

- 9.1. To minimise the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, Financial Services will periodically provide investment manager(s) with an estimate of expected net cash flow. They will notify the investment manager(s) in a timely manner, to allow sufficient time to build up necessary liquid reserves.
- 9.2. Financial Services will provide forward cash flow estimates to the Administrative Committee as an appendix to the investment report.
- 9.3. Based on these estimates the University will determine broad targets for the level of available investment funds that are to be held in cash or cash equivalent forms.

## **10. ASSET ALLOCATION**

- 10.1. Asset allocation refers to the mix of investments, for example, the mix of investments in cash versus in fixed term bonds or equities.
- 10.2. This investment policy requires an allocation between asset classes as specified in Schedule 3.

## **11. INVESTMENT GUIDELINES**

- 11.1. Allowable Assets
- Cash Equivalents
  - Bills
  - Money Market Funds
  - Foreign Currency

## 11.2. Fixed Income Securities

- Government and Agency Securities
- Corporate Notes and Bonds
- Preferred Stock
- Fixed Income Securities of Foreign Governments and Corporations

## 11.3. Equity Securities

- Common Australian Shares including Listed Property Trusts
- Convertible Notes and Bonds
- Convertible Preferred Shares
- International Shares

## 11.4. Equity Funds

- Equity Funds that invest in securities, bonds and cash as allowed in this statement.

## 11.5. Non-allowable Assets

- Derivative Securities: options and future contracts (except for hedging purposes)
- Real Estate Investments
- Short Selling
- Margin Purchases

## 11.6. Guidelines for Fixed Income Investments and Cash Equivalents

Investment of assets in cash and fixed income securities shall be well diversified amongst various forms of Australian, global and inflation-linked securities to the satisfaction of the Investment Advisory Committee.

## 12. FINANCING AND OPERATING ACTIVITIES

12.1. The amount of funds available for investment is limited by the demand for funds for financing and operating activities of the University. Financing and operating decisions may therefore significantly increase or decrease the investment returns to the University.

12.2. Financing decisions, for example, the offering of internal loans, should be evaluated against benchmark returns for investment funds and internal loan and other similar financing decisions should be required to deliver a return equal to the investment benchmark. If this cannot be achieved, then consideration should be given to external financing. Essentially, internal loans should be charged interest at the rate of the benchmark for investment funds ie. the cost of capital is set at the investment benchmark.

- 12.3. Management decisions with significant impact on operating cash flows should be evaluated to determine if alternative financing arrangements can be entered into so as to maximise investment income.
- 12.4. All major cash flows arising from financing or operating decisions which impact on available funds for investment are to be reported in the monthly investment report.

### **13. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

- 13.1. Performance reports generated by the Investment Manager(s) shall be compiled monthly. The investment performance of total portfolios, as well as asset class components, will be measured against performance benchmarks specified by NSW Treasury guidelines in addition to the market index asset class benchmarks agreed with the investment manager(s). Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this policy. The University intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:
- 13.1.1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- 13.1.2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- 13.1.3. Significant qualitative changes to the investment management organisation.
- 13.2. Investment managers shall be reviewed annually regarding performance, personnel, strategy, research capabilities, organisational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

### **14. REPORTING AND OVERSIGHT**

- 14.1. A monthly investment report will be prepared by Financial Services and submitted to the Vice-Chancellor. The current version of the report will also be submitted to the Administrative Committee at each of its meetings.
- 14.2. The Investment Report should contain 4 basic elements:
- Asset Allocation Information - Asset values and asset class percentages versus target allocation and ranges.
  - Investment Performance - Investment returns versus performance benchmarks.
  - Guideline Compliance - A statement that each portfolio conforms to guidelines or identification where variances occur.
  - Forward cash flow projections.
- 14.3. The Investment Report should not exceed 6 pages in length.

14.4. To assure the continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this policy, the Administrative Committee should review investment policy at least annually.

14.5. The Investment Advisory Committee

The purpose of the Investment Advisory Committee ("the Committee") is to assist the University in the execution of investment policy. The Committee shall function in an evaluative and advisory role providing advice to the Vice-Chancellor with respect to all aspects of the investment program, including, but not limited to, investment strategies, policies and procedures; investment performance and external investment advisors. Committee members will be familiar/expert in managing investment funds and portfolios. The Committee's responsibilities include:

- Investment strategy and policies - The Committee should recommend any changes to investment strategy and policy.
- Asset allocation - The Committee should recommend asset allocation policies and recommend any reallocation of assets to comply with asset allocation targets and ranges.
- Investment guidelines - The Committee should have responsibility for recommending any changes to investment guidelines for the University's and external managers' portfolios.
- Selection of outside consultants and investment managers - The Committee should recommend outside consultants and managers for approval. - The Committee should recommend any changes to investment managers.
- Monitoring outside investment managers - The Committee should monitor outside investment managers.
- Review quarterly investment performance and portfolios - the Committee should conduct performance reviews of the funds and portfolios.

14.6. The membership of the Investment Advisory Committee is specified in Schedule 4.

14.7. Appointments to the Investment Advisory Committee will be made by the Vice-Chancellor.

## **SCHEDULE 1 - INVESTMENT DELEGATIONS**

Transposed from Delegation Policy

13.04 Investment of University funds (within investment policy and to be reported to University Council) any two of the following - Investment Policy

- Vice-Chancellor and Principal
- Vice-Principal (Administration)
- Director, Financial Services
- Manager, Finance

13.05 Authority (including Power of Attorney) to purchase, sell, assign, transfer, convert or otherwise deal with any investment (must be reported to Council) any two of the following - Investment Policy

- Vice-Chancellor and Principal
- Deputy Vice-Chancellor
- Pro Vice-Chancellor
- Vice-Principal (Administration)
- Director, Financial Services

### **SCHEDULE 2 - INVESTMENT MANAGERS**

Cash or Cash equivalents National Australia Bank Funds including any subsidiaries with the National group of companies.

Other longer term investments National Australia Bank Funds including any subsidiaries with the National group of companies.

### **SCHEDULE 3 - ASSET ALLOCATIONS**

Cash or Cash equivalents a minimum of \$4,000,000 plus any other funds required to meet short term commitments.

Other longer term investments remaining investment funds

### **SCHEDULE 4 - INVESTMENT ADVISORY COMMITTEE MEMBERS**

Mr Chris Grange (Chair), Vice Principal (Administration)

Professor John Glynn, Dean, Business School

Professor Andrew Worthington, Head of Accounting and Finance

Mr Damien Israel, Director of Financial Services

### Modification History

Date:	Resolution no:	Authority:	Details:
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