

# Investment Policy

## Section 1 - Purpose

(1) The function of this Policy is to provide a framework for the management of the University's investment portfolio. It is intended to ensure the prudent management of funds giving recognition for reasonable risk and investment returns.

(2) The purpose of this Investment Policy is to:

- a. establish a clear understanding of the University's investment goals and objectives;
- b. define and assign responsibilities for investing activities;
- c. establish an investment strategy including asset allocation, investment horizon, risk and return; and
- d. establish a basis for reporting and evaluating investment performance and compliance with this Policy.

### Scope

(3) The University has authority granted by the NSW Treasurer and Minister for Education and Training to exercise investment powers under Part 4 of Schedule 4 of the [Public Authorities \(Financial Arrangements\) Act 1987](#). The investment activities of the University are constrained by any limitations, caveats or restrictions specified by the NSW Treasurer and Minister for Education and Training and any relevant regulation or motion passed by the University Council or authorised committee of the University Council.

(4) This Policy is applicable to all funds under the control of the University including its controlled entities and the Charles Sturt University Foundation Trust.

## Section 2 - Glossary

(5) Nil.

## Section 3 - Policy

### Part A - Objectives

(6) There are four interrelated primary objectives that the adherence to the Policy is expected to optimise.

- a. Stewardship and safety of funds - recognising that all investment activities involve varying degrees of volatility, a primary objective of this Policy shall be to safeguard the capital funds in the portfolio over the long term.
- b. Return on Investment - a primary objective shall be to maximise the return on investments within the risk profile of the Policy.
- c. Maintenance of liquidity and Cash flow - the portfolio should be assembled to ensure that funds are available to meet reasonably anticipated cash flow requirements for near term and longer term commitments.
- d. To adhere to [Responsible Investment Guidelines](#) - investment decisions should reflect the character and values the University upholds for itself.

## Part B - Funds

(7) The University will establish three layers or types of funds to meet its short term and longer term cash needs and with an aim to maximise the capacity for investment.

- a. Bank and At-Call Accounts - to meet the immediate requirements of the University for cash and facilitate the receipt of grants and income and the payment of salaries and other expenses. It will comprise bank accounts and funds held that may be available at-call or within 24 hours.
- b. Short Term Investment Portfolio - this is to support working capital and short to medium term cash flow needs. It will comprise investments with a term up to one year.
- c. Long Term Investment Portfolio - this comprises investments with a term of greater than one year, including equities. Investment returns from the long term portfolio are intended to support the capital development plan.

(8) The Investment Committee will be provided with an estimate of expected cash flow taking into account grants, investment redemptions, operational and capital expenditure requirements. This will guide the Committee as funds available for investment and the fund to which it might apply.

## Part C - Taxation

(9) The University is exempt from income tax. Imputation credits on dividends relating to Australian shares is fully refundable.

## Part D - Roles and Responsibilities

(10) Several layers of governance apply and the assignment of responsibility for investment matters in the University are:

- a. University Council
  - i. The Council is responsible under Schedule 2 of the [Charles Sturt University Act 1989](#) for authorising the investment of University funds. This authority of Council may be delegated in accordance with the Register of Delegations.
- b. Investment Committee
  - i. The Investment Committee is established to exercise the Investment functions of Council. It's Terms of Reference and Membership is set out in the Charles Sturt University [Governance \(Investment Committee\) Rule 2010, No 3](#).
  - ii. Broadly, the Investment Committee is responsible to the University Council for approving investment policy, the appointment of Fund Managers and advisors as well as the general oversight of investment performance and risk. The appointment of a Fund Manager must be formally approved by NSW Treasury in accordance with Part 4 of Schedule 4 of the [Public Authorities \(Financial Arrangements\) Act 1987](#).
  - iii. The Investment Committee may also provide advice to the Investment Management Committee to assist its functioning and the achievement of the investment strategy.
- c. Investment Management Committee
  - i. The functions of the Investment Management Committee are set out in the [Governance \(Investment Management Committee\) Rule 2007](#). In general, the Investment Management Committee (IMC) is responsible for:
    - the formulation and execution of this Policy;
    - determination of cash flow requirements and the funds available for investment purposes;
    - evaluating and recommending investment Fund Managers and advisors;
    - executing investment decisions within delegations and consistent with the provisions of this Policy

and advice provided by the Investment Committee; and

- measuring and reporting investment performance.

d. Investment Funds Manager(s)

- i. An Investment Funds Manager is a contract appointment to provide advice and with discretion to make investment decisions on behalf of the the University for the assets placed under their control and responsibility as specified in an agreement and in accordance with this Policy. Investments may be managed by professional Fund Manager(s) either within individually managed accounts under written agreements and with custody held on behalf of the pools through a professional custodian, or within a managed fund.
- ii. Fund Managers may utilise a range of vehicles in managing the the University's investment. Where this is the case, the Investment Committee shall consider the risks and controls in place.
- iii. Subject to agreement, Investment Funds Manager responsibilities may include the following:
  - a requirement to abide by standards of ethics, professional conduct and the best interest of the the University;
  - 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 their engagement and this Policy;
  - report investment performance results, including valuations on a monthly basis;
  - communicate any major or foreseeable changes to the economic outlook, investment strategy, or any other factors that may affect investments, or investment objectives;
  - inform the the University regarding any qualitative change in the investment management organisation. i.e. changes in portfolio management personnel, ownership structure, investment philosophy, etc; and
  - provision of reports as required for the University statutory and management reporting.

(11) The Investment Management Committee will be responsible for investing funds not vested in a Fund Manager. The Investment Committee shall determine the allocation and mix of investments between Funds Manager(s) and the Investment Management Committee taking into consideration the objectives of this Policy, relative capabilities, cost, cash flow requirements, security and ease of administration of investment by the University.

## **Part E - General Investment Principles and Ethical Standards**

(12) In addition to good governance, there is a need to operate with prudence and in accordance with ethical standards. Decisions regarding investments shall be made with judgement exhibiting competence, diligence and integrity. The following standards apply to Committee Members and Fund Managers.

- a. Investments shall be made solely in the best interests of the University taking into account the Objectives contained in this Policy .
- b. Investment analysis and decisions should be made with independent professional judgement and reflect the values, ethics and integrity of the University.
- c. Investments and Fund Manager appointments to be diversified to achieve objectives and to minimise risk.
- d. Committee Members to declare conflicts of interest including the disclosure to the University of material financial interests in institutions or activities that could be related to the performance of the University's investment program. A material financial interest will be deemed to exist by a Committee member or regular Committee attendee where an amount of \$100,000 or more is invested with any Fund Manager or Advisor used by the University.

## Part F - Volatility and Risk

(13) The University will seek to maximise returns whilst limiting the exposure of the risk to an acceptable level. It is recognised that in order to achieve the investment objectives, it is understood that investment returns may experience volatility and fluctuations in market value.

(14) Investment risks shall be considered in determining asset allocation and diversification as well as individual investment decisions. Risks considered shall include:

- a. Market risk - is the risk of movement in the value of the asset that can occur due to changes in the economic environment such as changes in interest rates, share prices and foreign exchange rates.
- b. Interest rate risk - results from changes in the underlying interest rate and can impact on both the market value or the return (coupon, interest or dividend) derived from the investment.
- c. Liquidity risk - is the risk that an investment cannot be liquidated in sufficient time to pay the liabilities of the University and arises because of a maturity mismatch between assets and liabilities.
- d. Credit risk - is the risk of counterparty failure.

## Part G - Asset Allocation

### Allowable Assets

Cash	Bank Accounts - At call accounts
Cash Equivalents	Foreign Currency
Fixed Income Securities	Government and Government Agency Securities - Bank Bills - Corporate Notes and Bonds - Tier 1 Subordinated Debt - Term Deposits or equivalent with Australian Banks - Derivative Credit Products - Preferred Stock - Fixed Income Managed Funds - Cash Management Accounts - Unlisted Property Trusts
Equity Securities	Australian Shares including Listed Property Trusts - Share Funds - International Shares - Convertible Notes and Bonds - Convertible Preferred Shares
Equity Funds	Equity Funds that invest in securities, bonds and cash as allowed in this statement
Internal Loans to the University	
Realty Assets	Land - Residential and commercial real estate

(15) These may be varied with the approval of the Investment Committee.

### Short Term Investment Portfolio

(16) Strategic Asset Allocation Benchmarks and Ranges are as follows:

Asset Class	Strategic Benchmark %	Ranges %
Current and At Call Accounts	15	10 - 30
Term Deposits and Cash Management Accounts	80	50 - 90
Bank Bills	2.5	0 - 10
Government Notes and Bonds	2.5	0 - 10
Total	100	

(17) With the exception of Government Notes and Bonds, all investments in the Short Term Investment Portfolio are to be invested in institutions registered with the Australian Prudential Regulation Authority (APRA) to operate within Australia.

(18) To ensure diversification and to manage risk, no single institution should have greater than 40% of the funds available within the portfolio.

(19) The investment return objective for the short term investment portfolio is to match or outperform the average return of UBS Australian Bank Bill Index over rolling two year periods and after fees paid for investment management. The Investment Committee may determine the benchmark for particular classes of investment or where managed under a Fund where this is considered appropriate.

## Long Term Investment Funds

(20) Strategic Asset Allocation Benchmarks and Ranges for the University is as follows:

Asset Class	Strategic Benchmark %	Ranges % or Cap
Australian Shares, incl. Listed Property Trusts	35	20 - 50
International Shares	5	0 - 10
Fixed Income Securities	55	30 - 75
Internal University Loans	3	Capped to \$5M
Realty Assets	2	0 - 10
Total	100	

(21) The Charles Sturt University Foundation Trust shall have a separate Strategic Asset Allocation to achieve an overall disburseable return of CPI plus 4% to reflect the requirements of the Foundation.

(22) The Strategic Asset Allocation Benchmark and Ranges for the Foundation is as follows:

Asset Class	Strategic Benchmark %	Ranges %
Australian Shares, incl. Listed Property Trusts	65	30 - 80
International Shares	5	0 - 25
Fixed Income Securities	15	10 - 60
Unlisted Property Trusts	15	5 - 25
Total	100	

(23) Australian Shares and listed Property Trusts must be listed on the Australian Stock Exchange with no less than 80% ranked in the top 200 in regards to share capital value (i.e. ASX200). In selecting holdings, regards needs to be given to dividend yield, capacity for capital growth, entitlement to franking credits and [Responsible Investment Guidelines](#).

(24) The share portfolio should be diversified with holdings being spread across industry sectors. The Investment Committee may establish sector class allocations to apply and for subsequent review.

(25) The Investment Committee may approve a small percentage of the Australian Shares portfolio to be held for short term trading and the terms associated with this activity.

(26) The investment return objective for the Australian Share asset class will to outperform the S&P ASX 300 Accumulation Index.

(27) International Shares will only be acquired through a Fund Manager or as part of a managed fund where the Fund Manager has the requisite experience and track record to operate in the international equities environment. International Shares should be spread across continents to ensure adequate diversification.

(28) The investment return objective for the International Share asset class will to outperform the MSCI World Index (AUD).

(29) 50% of fixed income securities need to be not less than AA rated (i.e. High Grade) and not more than 10% be either Non Rated or have a rating less than BBB (i.e. Lower Medium or Investment Grade). To ensure adequate diversification, not more than 20% should be held with a single institution or 33% with any single Fund Manager. Where an individual investment is downgraded and causes it to fall outside these guidelines, then it must be reported to the Investment Committee.

(30) The investment return objective for the fixed income securities will to outperform the UBS Australian Composite Bond Index for Australian Managed Funds and the Barclays Global Aggregate Index for International Managed Funds.

(31) Unlisted Property Trusts must be for properties within Australia and have an independent property valuation at the time of investment. Property Trusts will be assessed against the Mercer/IPD Australian Pooled Property Fund Index.

(32) Internal loans to the University need to justify a number of principles including:

- a. the loan should be at the average long term benchmark return rate;
- b. that it may contribute Responsible Investment outcomes;
- c. that the purpose for which it is applied can be justified on sound business principles;
- d. that the loan term not exceed a period of seven years; and
- e. that it is in keeping with other broader strategic goals of the University.

(33) Realty assets are not assets intended for the support of teaching or research activities, although it may temporarily support these functions and other University functions. Realty assets must be part of a plan and be capable of being resold. The acquisition and disposal of Realty assets will require University Council approval.

(34) The overall investment return objective for the long term investment portfolio is to match or outperform the average return of CPI plus 4% pa over rolling seven year periods after deduction of investment fees paid for investment management.

(35) The strategic asset allocation benchmark percentages and performance expectations are to be reviewed each year by the Investment Committee. The Investment Committee may determine and alternate benchmark for particular classes of investment or where managed under a Fund that differs to those referred above where this is considered more appropriate.

## **Part H - Investment Performance Monitoring**

(36) The principal goals of investment performance monitoring are to:

- a. assess the extent to which each pool's investment objectives are being achieved;
- b. monitor asset allocation exposures against ranges and strategic asset allocation benchmarks; and
- c. compare performance of the appointed managers against the performance of other relevant professional managers and market related indices.

(37) The Investment Management Committee will monitor investment performance including the performance of appointed Fund Managers in relation to the agreement and the objectives of the fund or pool to which it relates. Fund Manager performance will be monitored at least six monthly.

## **Part I - Reporting and Oversight**

(38) The Investment Committee will be provided with reports that contains the following detail:

- a. Register of Investments - including current valuations, acquisitions and redemptions during the reporting period.
- b. Asset Allocation Information - asset values and asset class percentages versus target allocation and ranges.
- c. Investment Performance - investment returns versus performance benchmarks.
- d. Cash flow projections.
- e. Expected economic outlook summary.

## **Part J - Review of Policy**

(39) To assure the continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this Policy, the Investment Committee will review this Policy in full each second year.

## **Section 4 - Procedures**

(40) Nil.

## **Section 5 - Guidelines**

(41) Refer to the [Responsible Investment Guidelines](#).

## Status and Details

<b>Status</b>	Historic
<b>Effective Date</b>	29th January 2015
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<b>Unit Head</b>	Paul Dowler Chief Financial Officer +61 2 69332255
<b>Author</b>	Paul Dowler Chief Financial Officer +61 2 69332255
<b>Enquiries Contact</b>	Division of Finance +61 2 69332255