

# Investment Policy 2015

(TWEEK!DM)

## Section 1 - Purpose / Objectives

(1) The objectives of this policy is to establish a framework within which the funds available for investment of the University may be invested, monitored and evaluated.

## Section 2 - Scope / Application

(2) This policy applies to: University Finance staff, Council and its sub-committees, and the Investment Manager appointed to provide advice and/or manage funds on behalf of the University and its subsidiaries.

## Section 3 - Definitions

(3) Definitions:

- a. CPI: This acronym refers to the Australian Consumer Price Index, in particular, the headline rate.
- b. Investment Manager: The term refers to the party appointed by the University to provide investment advice, including risk profile, strategic asset allocation and specific investments, as well as making decisions on fund manager selection.

## Section 4 - Policy Statement

### Policy Intent

(4) The intent of the University's Investment Policy is to maximise the investment return on cash balances, reserves and restricted funds, in an economic and efficient manner, subject to an overriding commitment to financial prudence in managing investment funds, and in accordance with approved investment criteria.

### Investment Principles

(5) The Investment Manager will manage and invest the University's funds within agreed mandates and in accordance with the University's Investments Policy and Procedures.

(6) The University's investment funds are to be invested in approved investments. Approved investments include any asset class that has been authorised under the University Investment Policy and Procedures. Approved investments may include but are not limited to: Australian shares, international shares (including emerging markets), listed infrastructure and property assets, fixed interest assets, cash and short term interest bearing investments and various alternative assets.

(7) Ethical, social and governance (ESG) considerations:

- a. Victoria University is committed to the community in which it operates. Victoria University seeks to invest as a socially responsible community member, and also to ensure that the investments are consistent with its specific mission and the broader community in which the University operates. The University believes that it is its fiduciary responsibility to maximise returns, diversify risk and ensure the responsible long term management of its assets. With this responsibility in mind, the University has chosen to have its assets managed by a professional Investment Manager. Considering the current size of assets, it is most practical to have the assets managed within pooled (commingled) vehicles.
- b. The University recognises that when invested in pooled vehicles, the Investment Manager's investment process will determine how it invests. The University engages Investment Managers who incorporate ethical, social and governance (ESG) factors into their investment processes. The University recognises that the integration of ESG in the investment process does not necessarily imply the exclusion of particular companies from the investment universe on ethical grounds. However, the integration of ESG requires that the impact of any ESG issues on the value of a company is included in the valuation process and an understanding of the long term sustainability of the company.
- c. The University recognises that socially responsible investing is evolving and as a result, will be a multi-stage process. Currently, there are some investment vehicles that exist to encourage ethical and socially positive business practices. Where possible, practical and appropriate, investments will be made in such vehicles. Further, the Investment Manager will actively seek to ensure it makes appropriate modifications to its investment processes through time to increase its visibility at the security level and continue to raise awareness of ESG issues.

(8) The University wishes to use its tax exempt status to its investment advantage and accordingly the Investment Manager should therefore consider the availability of franking credits when determining the investment strategy of the University investment portfolios.

(9) Investment decisions made by the Investment Manager, University staff, Resources Committee or Council, must be properly authorised in line with the applicable University's Delegations and Authorisations Policy and associated schedules of delegation.

## **Investment Strategy and Investment Portfolios**

(10) The University's investment strategy will be developed in a manner that best balances the University's investment objectives against risk and other constraints.

(11) The University investment funds are to be administered and invested in separate portfolios according to their different investment time horizons and level of risk tolerance.

(12) Because of the significant differences in the liquidity requirements and objectives, the investment portfolios are to be managed with separate investment strategies and asset allocations.

(13) The Investment Manager will invest the University's investment portfolios in line with the approved asset allocation ranges.

## **Dynamic Asset Allocation**

(14) It is accepted that over shorter periods, investment markets may be imbalanced in a way that changes the shorter term risk and expected return (relative to the long term) for certain assets. It is accepted that these imbalances can persist for some time.

(15) It is accepted that the successful use of dynamic asset allocation, tilts from long term strategic asset allocation, to take account of the valuation imbalances, can add value to the portfolio. Tilts will only be taken where confidence in success is commensurate with the risks involved. The Investment Manager may make short to medium term asset

allocation tilts subject to the approved asset allocation ranges.

## **Risk Management Objectives**

(16) The key strategy for the investment portfolio is to adopt appropriate investment strategies to support capital growth and income generation, without substantially risking the initial capital value of the portfolio.

(17) It is expected that the University's investment funds will be prudently managed having regard for all aspects of investment related risks. This translates into the following broad objectives:

- a. To invest in assets within legal, policy and regulatory constraints
- b. Diversify the investments across asset class, manager and product to ensure a 'risk adjusted return' which reflects the nominated risk profile of the Council and/or its relevant subcommittee
- c. Ensure that investment manager(s) appointed by the University operate in an effective and cost-efficient basis and comply with the University's Investment Policy and Procedures
- d. Delegate investment management responsibility to providers with:
  - i. Integrity
  - ii. Appropriate expertise and professional skills
  - iii. Relevant experience in meeting the specific requirements of a University
  - iv. Transparent accountability to the Council and Resource Committee

## **Use of Derivative Instruments**

(18) Fund managers are permitted to use derivatives for the purposes of risk management. No fund manager will be permitted to use derivatives to leverage the portfolio.

## **Specific Liquidity Objectives**

(19) Liquidity risk is a significant portfolio risk and is to be managed carefully as follows:

- a. Retain sufficient liquidity to meet the University's cash flow requirements
- b. Low volatility assets should be considered where asset price fluctuations may otherwise jeopardise meeting cash flow objectives
- c. Where cash flow is to be met from a managed fund, the investments within the fund must retain liquidity levels commensurate with timing of cash flow requirements
- d. Given that unforeseen circumstances may arise, regardless of expected cash flow requirements, it is prudent to limit the use of illiquid assets

## **Policy Review**

(20) This policy will be reviewed annually by Resources Committee with a view to comparing outcomes against its intention. The policy should be actively updated at least every 3 years and changes to the University's Investment Policy are to be approved by Council.

(21) This policy is to be reviewed sooner than the minimum 3 year period if there are any major changes in capital markets, the regulatory environment or the investment environment.

# **Section 5 - Procedures**

## Responsibilities

### (22) Resources Committee :

- a. Under its Terms of Reference, the Resources Committee shall "oversees the investment of all monies of the University (including monies held in trust), and recommend to Council on any changes to the University's investment policies". Resources Committee has responsibility to:
  - i. Provide oversight and stewardship of the University's investment funds
  - ii. Assess the University's investment risk and return profile and approve the University's investment objectives based on advice from the appointed Investment Manager and University management
  - iii. Evaluate and approve the University's investment asset allocation ranges based on advice from the appointed Investment Manager and University management
  - iv. Monitor investment performance against the University's Investment Policy and Procedures requirements, and in particular against the established University's investment objectives and principles
  - v. Assess and approve the appointment and termination of the Investment Manager

### (23) Chief Financial Officer (CFO) :

- a. The CFO, acting in accordance with the applicable University's Delegations and Authorisations Policy and associated schedules of delegation, has responsibility to:
  - i. Implement the University's Investments Policy and Procedures
  - ii. Implement the minuted decisions of the Resources Committee in relation to the management of the University's investment funds
  - iii. Determine the appropriate level of assets to be held as investment funds from time to time, and invest surplus funds in accordance with the University's Investment Policy and Procedures
  - iv. Withdraw invested funds to the extent necessary to meet the University's liquidity requirements and budgeted expenditure requirements
  - v. Withdraw and invest funds to the extent necessary to implement written urgent advice from the Investment Manager, provided that the asset allocation to individual sectors remains within the approved asset allocation ranges
  - vi. Determine and approve the investment procedures required to support the implementation of the University Investment Policy

### (24) Investment Manager:

- a. Subject to the terms of the applicable contractual arrangement, the University's appointed Investment Manager has responsibility to:
  - i. Manage and invest the University's investment funds in accordance with the University's Investments Policy and Procedures
  - ii. Make recommendations to University management and the Resources Committee around the University's investment strategy, investment objectives and strategic asset allocations, and make decisions on fund manager selection
  - iii. Provide reporting on investment performance
  - iv. Apply prudent standards of judgement, as would be compatible with the skill and expertise of a professional in the business of portfolio management

## Structure of Investment Portfolios & Investment Objectives

### (25) The University will identify separate and distinct purposes for the funds available for investment and manage

these as separate investment portfolios.

(26) It has determined the following separate investment portfolios are to be established:

- a. Treasury Operations Portfolio (TOP) - This portfolio is focused over the short term, with an investment horizon rolling over 12 months.
- b. Longer Term Investment Portfolio (LTIP) - This portfolio is currently focused over the medium term, with an investment horizon of around 2 to 4 years.

(27) The CFO, in consultation with the Resources Committee, will determine the appropriate level of assets to be held as investment funds within the portfolios from time to time, taking into consideration liquidity and expenditure requirements.

### **Treasury Operations Portfolio (TOP)**

(28) This portfolio is to be managed in a risk averse manner. The basis for investment of this portfolio is that a loss of capital over a financial year would be undesirable. This portfolio is managed such that the risk of negative return over any financial year is minimised. However, it is recognised that in extreme market conditions, a negative return is possible.

(29) This portfolio is to be managed on a 12 month investment horizon.

(30) The investment objectives for this portfolio are:

- a. *Investment returns* : To manage the cash and cash-like investments specific to upcoming spending requirements.
- b. *Risk* : The likelihood of returns being lower than inflation is to be negligible. There is very little appetite for negative returns.
- c. *Constraint* : Liquidity will be managed to meet the spending requirements as they arise.
- d. *Performance measurement* : To achieve, over rolling one year periods, an average before fees and taxes annual return that is at least equal to the benchmark return

(31) Consistent with the nature of the portfolio and its investment objectives, the Treasury Funds will be invested for up to 24 months in the strategic asset allocation as shown in Schedule B.

### **Longer Term Investment Portfolio (LTIP)**

(32) A longer term investment horizon applies to this portfolio, with an objective to obtain a rate of return that is 2.0% above the rate of inflation (as measured by CPI) after fees and taxes. Despite this objective, a decline in market value in any one year should not be a major concern provided the investment risk objective is met.

(33) The Longer Term Investment Portfolio is held to meet:

- a. Adequate levels of capital reserves to safeguard the long term viability of the University
- b. Strategic planning initiatives of the University including capital works and restructuring opportunities
- c. Supplementary income funding for strategic operational initiatives
- d. The preservation of the real value of capital for trust and endowment funds
- e. The annual cash distribution requirements of trust and endowment funds for the payment of scholarships

(34) The investment objectives for the portfolio are:

(35) a. *Investment return* : To achieve a rate of return that is 2.0% above the rate of inflation (as measured by

Consumer Price Index), over rolling 3 year periods, after fees and taxes and incorporating franking credits. The probability of achieving CPI + 2.0% over the long term should be at least 55%

- a. *Income return* : To achieve a level of income that is at least 3.0% per annum
- b. *Risk* : The likelihood of negative return will be no more than 1 in every 4.5 years.
- c. *Performance measurement* : Over rolling 3 year periods, achieve an average before fees and taxes return that is at least equal to the benchmark return. The benchmark return will be calculated as the weighted average of the strategic benchmark weights using returns of the asset class benchmarks as stated in Schedule A.

(36) The risk profile of the University has been determined to be moderate, with an allocation to growth assets of around 50%. Consistent to the nature of the funds, risk profile and the investment objectives, the strategic asset allocation is shown in Schedule B.

## **Authorised Signatories**

(37) The positions within the University that are authorised signatories for approved investment transactions is documented in the University's Delegations and Authorisations Policy and associated schedules of delegation.

(38) The Investment Manager requires that any two authorised signatories sign an authority to proceed or trading instruction to make or redeem investments on behalf of the University for all investment transactions that are made in accordance with the University's Investment Policy and Procedures.

## **Administration**

(39) In respect of the administration of the University funds:

- a. All investment assets must be held in the name of Victoria University and its subsidiaries (as applicable) who will retain full legal ownership.
- b. Correspondence and documents relating to the investments of either portfolio may be held by the Investment Manager who will be obliged to provide full access and transfer of this information upon request.

## **Reporting**

(40) The Investment Manager will prepare and provide comprehensive monthly reporting to University management and quarterly reporting to the Resources Committee. The Resources Committee will provide an investment performance report to the Council as and when required by Council. The reporting to be provided by the Investment Manager is as a minimum to include:

- a. Return on investment, expressed as a percentage
- b. Return on each portfolio compared to its benchmark return
- c. Return on each portfolio compared to its peer median return where the peer measure is taken from the relevant Chant West Implemented Consulting Survey universe
- d. The percentage of exposure to each asset class compared to the target allocation as determined by this policy, including any comments on the major movements or any major disparities
- e. Any other meaningful data required by the Resources Committee
- f. The Investment Manager will report on ESG matters such as engagement activities, proxy voting and the ESG ratings of the investment vehicles in which the University is invested on an annual basis.

# Section 6 - Guidelines

(41) Nil

## Schedule A: Performance Benchmarks

Sector	Benchmark
Russell Australian Responsible Investment ETF	Russell Australia ESG High Dividend Index
Russell Australian Shares Tracker Fund	S&P/ASX 300 Accumulation Index
Russell Global Opportunities Fund \$A Hedged	Russell Global Large Cap Index — Net (\$A Hedged)
Russell Global Opportunities Fund	Russell Global Large Cap Index — Net
Russell Global Defensive Equity Fund	Russell Global Large Cap Index — Net
Russell Multi-Asset Factor Exposure Fund	Russell Global Large Cap Net Index — 75% \$A Hedged
Russell Tax Effective Global Shares Fund	Russell Global Large Cap Net Index (After Tax Series)
Vanguard International Property Securities Index Fund \$A Hedged	n/a
Vanguard Australian Property Securities Index Fund	n/a
Russell Global Listed Infrastructure \$A Hedged	S&P Global Infrastructure Index \$A Hedged
Russell Multi-Strategy Volatility Premia Fund	Bloomberg AusBond Bank Bill Index
Russell Australian Bond Fund	Bloomberg AusBond Composite 0+ Yr Index
Russell International Bond Fund \$A Hedged	Barclays Capital Global Aggregate Bond Index - \$A Hedged
Russell Global Bond Fund \$A Hedged Duration Hedged	Barclays Global Aggregate Bond Duration Hedged Index AUD Hedged
RIC Global Bond Fund USD Hedged	Barclays Capital Global Aggregate Bond Index - \$US Hedged
Russell Australian Cash Enhanced Fund	Bloomberg AusBond Bank Bill Index
Amundi Absolute Volatility Strategies	Bloomberg AusBond Bank Bill Index
Russell Global Strategic Yield Fund	Bank of America Merrill Lynch Global High Yield Constrained and the JPMorgan EMBI Global indices
Russell Emerging Markets Debt Local Currency Fund	JP Morgan GBI-EM Global Diversified Index

## Schedule B: Asset Allocation Ranges

### B.1. Treasury Operations Portfolio

Sector	Strategic Allocation	Ranges
Australian Cash at Bank, including at-call and term deposit	50%	25%-100%
Russell Australian Cash Enhanced Fund	50%	0-75%

## B.2 Longer Term Investment Portfolio

Sector	Strategic Allocation	Ranges
Australian Equity	34.6%	25%-45%
International Equity (includes emerging markets)	7.0%	0%-20%
International Equity \$A Hedged	0.8%	0%-20%
International Property \$A Hedged (listed)	2.3%	0%-15%
Australian Listed Property	1.1%	0%-15%
Growth Alternatives	2.7%	0%-20%
Australian Bonds	19.5%	10%-70%
International Bonds	15.0%	10%-70%
Australian Cash	11.3%	10%-70%
Defensive Alternatives	4.9%	0%-20%



## Status and Details

<b>Status</b>	Historic
<b>Effective Date</b>	15th December 2015
<b>Review Date</b>	20th September 2018
<b>Approval Authority</b>	University Council
<b>Approval Date</b>	15th December 2015
<b>Expiry Date</b>	19th January 2016
<b>Responsible Officer</b>	Lucy Franzmann Chief Financial Officer
<b>Enquiries Contact</b>	Adrian Xuereb Associate Director, Strategic Capital Management +61 3 99192939