INVESTMENT POLICY 2022

The Investment Subcommittee of the Senate Finance and Audit Committee, as delegate of the Senate of the University of Sydney, adopts the following policy.

Dated: 23 December 2022

Last amended:

Signature:

Position: Chair, Senate Finance Investment Subcommittee

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1 Name of policy

This is the Investment Policy 2022.

2 Commencement

This policy commences on 24 December 2022.

3 Policy is binding

Except to the extent that a contrary intention is expressed, this policy binds the University, staff, students and affiliates.

4 Statement of intent

This policy:

(1) sets out the principles underpinning the management of the University's investment funds of endowment and other capital, including its real property investments;

(2) supports compliance with legal and regulatory requirements;

(3) supports the University's goal of enhancing the overall wealth and fiscal capacity of the University; and

(4) states the University's intention to incorporate ESG factors in the management of investment funds.

Note: Management of the University's investments is subject to Schedule 2 of the *University of Sydney Act 1989* (as amended). Delegations for investment and capital management are included in the *University of Sydney (Delegations of Authority) Rule 2020*.

5 Application

(1) This policy applies to the University, staff and affiliates.

(2) Unless otherwise specified, this policy does not apply to the management of financial risks addressed by *Treasury Management Policy 2018*.

6 Definitions

asset allocation frameworks	means the frameworks of that name set out in Schedules 1 and 2 of the *Investment Procedures 2022*.
benchmark indices	means performance measures, over the appropriate time frame, used to assess the performance of either or both an investment manager or investment funds.
carbon footprint	means a measurement of the greenhouse gas emissions of carbon dioxide produced for each investment fund's company.
co-mingled investment vehicle	means an investment vehicle with an external investment manager in which the investment funds of multiple parties are pooled, and parties share in the investment returns of the pool of assets owned by the vehicle.
custodian	means an external entity responsible for safekeeping securities, and collections and disbursements of related payments and receipts attaching to the securities. Additional services may include investment performance reporting.
discretionary capital	means the University's non-restricted funds and includes endowment funds and real property assets not allocated to a specific faculty or purpose and accumulated reserves and provisions.
endowment capital	means a sum of money where the principal is managed in a way that seeks to preserve or grow its value in perpetuity.
ESG	means Environmental, Social and Corporate Governance.

external investment manager	means a party external to the University appointed to manage investment funds under an investment management agreement, managed investment schemes or partnerships.
Financial Services	means the business unit of the University responsible for the provision of financial and accounting related services.
Future Fund	has the meaning set out in the *University of Sydney (Delegations of Authority) Rule 2020*. At the date of this policy, this is: means the fund, established by the University, constituted by: - gifts or bequests made to the University which are the absolute property, or the proceeds of such gifts or bequests, the corpus of which the University has determined should be preserved with the intention that the income be applied to support the University's operating costs; and - any other moneys contributed to the fund, with or without conditions, by the University.
ICM	means Investment and Capital Management which is a sub-unit within Financial Services directly responsible for the management of the medium term and long term investment funds.
individual investment mandate	means an investment with an external investment manager in which the University's investments are held directly for the benefit of the University and are not co-mingled with investment funds of other parties.
integrated ESG framework	means the system of incorporating ESG considerations into the evaluation of manager selection or the determination of investment strategy.
investment consultant	means a consultant approved by Senate Finance Investment Subcommittee appointed to advise the University about its investment funds.
investment funds	means funds available to be invested by ICM.
LTF	means long term funds, designed for investors with long term investment needs beyond seven years.
mandate	means an externally managed investment strategy where the component individual securities are held directly with the University's custodian on the University's behalf.
modern slavery	has the meaning given in clause 7 of the *Modern Slavery Policy 2020*.
MTF	means medium term funds, designed for investors intending to spend their investment within one to four years. Funds intended to be spent within five to seven years are also invested in the MTF.
percentage rate of annual spending	means the permitted annual rate of spending from capital preserved accounts, as approved by Senate Finance Investment Subcommittee.

specialist proxy voting firm	means an entity that provides specialist shareholder voting services and exercises shareholders' voting rights on their behalf in accordance with an agreed voting mandate.
STF	means short term funds, with investments generally held for a period less than one year, managed by Financial Control and Treasury.
UN SDGs	means the United Nations Sustainable Development Goals.

7 Responsibilities

(1) Senate Finance Investment Subcommittee is responsible for:

(a) monitoring and overseeing the investment activities of the University;

(b) approving the appointment and termination of investment consultants;

(c) annually setting the financial limit for ICM to approve the appointment of, termination of and transactions in:

(i) externally managed funds; or

(ii) mandates;

(d) approving the appointment of, termination of and transactions in externally managed funds or mandates where the financial limit is greater than the limit approved for ICM;

(e) approving asset allocation frameworks, following consideration of advice from ICM;

(f) approving the integrated ESG framework; and

(g) reviewing investment reports provided by ICM.

(2) ICM is responsible for the management of the University's investment funds, including:

(a) complying with investment related obligations attaching to gifts under the *Gift Administration Policy 2012*;

(b) appointing and terminating external investment managers in accordance with the *University of Sydney (Delegations of Authority) Rule 2020*;

(c) instructing transactions to add or subtract monies from:

(i) externally managed funds; or

(ii) mandates

consistently with the *University of Sydney (Delegations of Authority) Rule 2020*;

(d) making recommendations to Senate Finance Investment Subcommittee about the asset allocation framework;

(e) co-ordinating advice from the investment consultants to Senate Finance Investment Subcommittee on:

(i) an annual assessment of the investment funds; and

(ii) ongoing development and implementation of the integrated ESG framework;

(f) appointing a custodian for the provision of services including investment performance reporting;

(g) developing an investment strategy for the University;

(h) setting sector benchmarks for performance measurement and evaluation;

(i) providing investment reports and recommendations to Senate Finance Investment Subcommittee; and

(j) monitoring and reporting to Senate Finance Investment Subcommittee on any actual, apparent or perceived conflicts of interest, as defined in the *External Interests Policy 2010*.

(3) The Gift Administration Board and the Trusts Office have responsibilities assigned to them by the *Gift Administration Policy 2012*.

(4) Subject to the terms of the relevant contractual arrangement, the custodian will be engaged to be responsible for:

(a) holding the University's investment assets in safe custody;

(b) associated investment accounting, unitisation, valuation and performance reporting; and

(c) producing monthly investment performance results, on both a gross basis and net of external investment manager fees, for MTF and LTF investments. These reports will include:

(i) investment funds performance relative to the benchmark; and

(ii) performance of the separate asset sectors and of the individual external investment managers, relative to the applicable benchmarks.

(5) Subject to the terms of the relevant contractual arrangement, the University's investment consultant will be engaged to assist ICM in:

(a) providing Senate Finance Investment Subcommittee with an annual assessment of the investment funds with an independent view of the structure versus objectives and peer funds; and

(b) developing and implementing the integrated ESG framework.

8 Investment principles

(1) Investment funds will be invested:

(a) in accordance with the asset allocation frameworks; and

(b) in a manner consistent with the integrated ESG framework set out in clause 9 of this policy.

(2) Investment funds will be administered in two fund products, each having a different time horizon and level of risk tolerance:

(a) Medium Term Funds portfolio (MTF);

(b) Long Term Funds portfolio (LTF).

(3) Investment risks will be effectively reduced by diversification and by applying responsible investment principles.

(4) University investments with external investment managers may comprise both individual investment mandates and co-mingled investment vehicles and:

(a) where it is feasible to do so, the University will seek to make investments using individual mandates, to facilitate the implementation of tailored ESG considerations and to target tax efficiency where appropriate; and

(b) where co-mingled investments are used, the University will integrate ESG considerations into the due diligence and evaluation processes for selecting the external investment manager, and for the purpose of ongoing monitoring of each manager.

(5) The University will seek to maximise the investment returns of the investment assets within specified risk profiles, consistent with international best practice for institutional and endowment capital investment.

(6) The management of investment funds will be consistent with the University meeting its duties and obligations as trustee and meeting its contractual obligations.

(7) The investment returns and risk measures will be regularly assessed against benchmark indices and return objectives, consistent with the asset allocation frameworks.

(8) Investment in real property will be undertaken either:

(a) where it supports the University's strategic plan and statutory object; or

Note: The University's object is defined in clause 6 of the *University of Sydney Act 1989*.

(b) where it is required to be undertaken by the terms upon which the University acquired or was given property.

(9) Separate target returns may be set for real property held within the Future Fund.

(10) The net investment return on funds invested in the LTF should exceed the average percentage rate of inflation plus the percentage rate of annual spending, over a full investment cycle spanning seven to ten years. The LTF asset allocation framework will be biased towards equity investments.

(11) The net investment return on funds invested in the MTF should exceed the rate of return of the STF when measured over a three-year period. The MTF asset allocation framework will be biased towards cash and debt assets.

9 Integrated ESG framework

(1) The University takes an integrated approach to environmental, social and governance factors in its investments, with actions focusing on engagement, investment and exclusions.

(2) Investment mandates must, based on the best information available:

(a) be aligned with and supportive of the UN SDGs by 2030;

(b) be aligned with and supportive of net zero carbon emissions by 2050;

(c) be aligned and consistent with the University's *Modern Slavery Policy 2020*;

(d) identify and respond to known human rights abuses, with a focus on modern slavery and indigenous peoples rights;

(e) exclude investments in entities directly involved in the primary manufacture of complete tobacco products;

(f) exclude investments in entities directly involved in the manufacture of cluster munitions; and

Note: See *Convention on Cluster Munitions (2008)* and *Anti-Personnel Mines Convention Act (1998)*.

(g) exclude investments in companies or investment managers that are significantly involved in the extraction of, or generation of power from, fossil fuels unless the companies or investment managers can demonstrate their alignment with a low carbon transition.

Note: See *Investment Procedures 2019*.

(3) As part of its analysis of external investment managers, ICM will assess the reasonableness of their approach to ESG factors and inclusion of ESG factors in their investment processes. These assessments will take into account:

(a) the character of the investment strategy, and

(b) considerations of the likely time horizon over which an underlying investment will be held.

(4) An ESG specialist investment consultant will annually review the external investment managers and co-mingled investment vehicles for ESG capabilities and performance. This will include:

(a) assessing manager surveys to obtain qualitative insights specified in clause 9(5);

(b) assessing the listed equity sectors of the relevant investment funds to measure the aggregate carbon footprint and any exposures to fossil fuel companies;

(c) benchmarking against the carbon footprint of broader market indices; and

(d) evaluating how Australian equities managers identify and assess companies' respect for the rights and interests of Indigenous peoples, including Aboriginal and Torres Strait Islander people.

Performance will be measured against milestones and metrics defined and reviewed by Senate Finance Investment Subcommittee as part of the annual review to allow for the evolution of quantitative sustainability measures and tools.

(5) The University will exercise its ownership rights, including share voting rights (or similar), in a manner consistent with active ownership and stewardship of the assets in which it has invested and with the principles of its integrated ESG framework. This will include:

(a) leveraging the research skills of its appointed investment managers or appointing a specialist proxy voting firm to assist in this function where appropriate;

(b) supporting principles of good governance, on the basis that this contributes to long term investment value;

(c) supporting disclosure by companies of any material exposure to economic, environmental and social sustainability risks and how they manage or intend to manage those risks,

(d) respecting the rights, interests and cultures of Indigenous peoples, including Aboriginal and Torres Strait Islander peoples;

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(e) supporting engagement through collaborative governance initiatives or direct engagement with corporate entities in which the University is invested, where appropriate, on a range of ESG issues including climate change and modern slavery; and

(f) participating, directly or through agents or collaborative engagement, in the development of policy, regulation, and standard setting.

(6) External investment managers (including, as far as possible, managers of co-mingled investments) will be asked to report on ESG matters at least annually. These reports will address:

(a) ESG integration;

(b) alignment with the UN SDGs;

(c) discussion of and action taken with regard to material ESG issues and systemic risks, such as climate change and alignment with a low carbon transition;

(d) approaches to modern slavery, human rights and indigenous rights risk assessments, and investment action taken in response to those assessments;

(e) engagement activities;

(f) voting; and

(g) questions of the rights, cultures and interests of indigenous peoples, including Aboriginal and Torres Strait Islander people.

10 Risk management

(1) Investment funds will be allocated to achieve appropriate diversification to reduce risk.

(2) Investment funds will be managed in accordance with the asset allocation frameworks.

Note: See *Risk Management Policy 2017* and *Investment Procedures 2022*.

11 Procedures

The Chief Financial Officer may, by written determination, determine procedures for the implementation of this policy.

NOTES

Investment Policy 2022

Date adopted:	23 December 2022
Date effective:	24 December 2022
Date amended:	
Administrator:	Chief Financial Officer
Review date:	24 December 2027
Rescinded documents:	
Related documents:	

University of Sydney Act 1989

University of Sydney (Delegations of Authority) Rule 2020

Environmental Sustainability Policy 2015

Gift Acceptance Policy 2013

Gift Administration Policy 2012

Modern Slavery Policy 2020

Risk Management Policy 2017

Treasury Management Policy 2018

Investment Procedures 2022

Treasury Management Procedures 2018

Sustainability Strategy

AMENDMENT HISTORY

Provision	Amendment	Commencing