

INVESTMENT PORTFOLIO PROCEDURES 2015

Issued by: Chief Financial Officer

Date: 1 June 2015

Last amended: 16 May 2017

Signature:

Name: Mark Easson

1 Purpose and application

- (1) These procedures are to give effect to the Investment Policy 2017 (“the **policy**”).
- (2) These procedures apply to all University staff involved in the management of the investment portfolio.
- (3) These procedures do not apply to University owned real property investments held within the Future Fund.

2 Commencement

These procedures commence on 3 June 2015.

3 Interpretation

- (1) Words and phrases used in these procedures and not otherwise defined in this document have the meanings they have in the policy.

APRA means the Australian Prudential Regulation Authority.

CFO means the University’s Chief Financial Officer.

credit rating means an external opinion of the general creditworthiness of a borrower.

currency overlay manager	means a manager appointed to minimise the University's currency risk that arises from holding investments denominated in a foreign currency.
derivative	means a financial instrument whose value is derived from the value of an underlying asset or security, such as government bond futures and options and share price index futures contracts.
FCT	means Financial Control and Treasury which is a sub-unit within Financial Services directly responsible for investment and unit registry accounting and banking operations.
investment grade credit ratings	means a bond that has been given a credit rating of BBB minus or higher by Standard & Poor's rating agency or Baa3 or higher by Moody's rating agency.
NSW T-Corp nominated statutory benchmark	means an investment facility nominated by ICM as a benchmark for one of the investment products and managed by the NSW Treasury Corporation.
OGC	means the University's Office of General Counsel
parent and child general ledger account structure	means an accounting framework where the invested funds are quarantined in a centralised structure (parent account) and only spending money is made accessible to the unit holder (child account).
SAA	means strategic asset allocation, which is the mix and percentage target weights of asset classes adopted to achieve the investment funds portfolio's strategic objectives. Currency risk is factored into the overall asset mix and weightings via the approval of a target hedge ratio for those sectors that involve holding investments denominated in foreign currencies, such as overseas equities.
TAA	means tactical asset allocation, an active approach to asset allocation aimed at taking advantage of short and medium-term opportunities in asset classes. The objective of TAA is to generate a higher return than if the portfolio's asset class exposures remained at the neutral, static long-term policy allocation. TAA moves are always constrained by ranges that impose a maximum and a minimum for each asset sector.
target hedge ratio	means a pre-determined portion of the foreign currency exposure that is to be hedged by the currency overlay manager.
UBS Australia bank bill index	means the index of Australian bank bill securities prepared by UBS Australia.
UBS Australia composite index	means the index of Australian investment grade securities prepared by UBS Australia.
UBS Australia government bond index	means the index of Australian Commonwealth and state and territory government securities prepared by UBS Australia.

unitised product	means an investment product which is held, traded and priced by units.
University main bank account	means the bank account that the University uses for day to day operational transactions.
unlisted investment	means an investment which is not listed on a public stock exchange.

4 Investment funds

(1) The investment funds portfolio includes defensive, growth and alternative assets.

- (a) Defensive investments in cash and fixed interest and their associated derivatives will be managed internally by ICM.
- (b) Growth and alternative asset investments will be managed by external investment managers.
- (c) Foreign currency exposures will be managed by an external currency overlay manager, in accordance with the ICC approved target hedge ratio.

Note: The ICC approved target hedge ratio is determined as part of the SAA review process.

(2) ICM will manage investment in the defensive asset sectors in accordance with the credit risk framework set out in Schedule 1 to these procedures. FCT will manage operational banking services.

(3) **Defensive investments**

(a) **Cash investments**

- (i) Cash investments include deposits, negotiable instruments and floating rate securities issued by Australian deposit-taking institutions and Australian branches of international banks under the regulation of APRA.
- (ii) Cash investments will reflect a diversification of borrowing entities, and satisfy the limits specified in Schedule 1.
- (iii) Cash investments will have a term structure which adequately reflects the University's operating cash flow forecast and overall liquidity requirements (in the case of STF), and the liquidity requirements of SAA and TAA (in the case of MTF and LTF).
- (iv) The performance of cash investments is measured against the UBS Australia Bank Bill Index benchmark.

(b) **Fixed interest investments**

- (i) Fixed interest investments include securities issued by the Australian commonwealth and state governments, sovereign and supranational agencies, and must be included in the UBS Australia Composite Bond Index.
- (ii) Fixed interest investments are to reflect a diversification of borrowing entities, and have a maturity structure and duration that satisfy the limits specified in Schedule 1.
- (iii) The performance of fixed interest investments is measured against the UBS Australia Government Bond Index benchmark.

- (c) **Derivative instruments**
 - (i) Derivative instruments may be used as a substitute for underlying physical security exposure, to adjust the duration of the University's cash and fixed interest portfolios, and to manage the impact of realised gains or losses on the University's financial result.
 - (ii) The effective exposure of derivative instruments must be supported by uncommitted cash holdings or holdings of underlying securities, and satisfy the limits specified in Schedule 1.
- (4) **Growth and alternative investments**
 - (a) External investment managers will be selected after taking into account:
 - (i) their investment securities selection process, including idea generation, use of research and risk controls;
 - (ii) style and approach;
 - (iii) people and team;
 - (iv) business model, including ownership;
 - (v) performance including fees; and
 - (vi) the integration of ESG considerations into the investment process.
 - (b) In selecting investment managers, ICM and the investment consultant will conduct interviews with short-listed managers and extensively review relevant documentation. Where this involves foreign currency exposure, currency hedging risks will be taken into account.
 - (c) Where the proposed investment exceeds \$50 million, ICM will seek a recommendation from ICC to appoint a new manager. Where the proposed investment is less than \$50 million, ICM will appoint the manager following receipt of a letter of support from the investment consultant. The letter of support will identify the manager, strategy and detail the investment consultant's opinion of the suitability of the manager for the University, including any risks.
 - (d) Following the appointment of an investment manager, any foreign currency exposure will be managed by the external currency overlay manager in accordance with the ICC approved target hedge ratio.
 - (e) ICM, in consultation with the investment consultant, will on an ongoing basis monitor all external investment managers to ensure the manager and their investment strategy continue to have above average prospects of achieving the investment return objectives and that the strategy continues to be suitable for the University's MTF and LTF investment portfolios.
 - (f) The framework for monitoring external investment managers will be similar as for selecting such managers specified in sub-clause (4)(a).
 - (g) All external investment managers will be reviewed annually by ICM.
 - (h) Where there has been a significant change in the business, staff or processes of an investment manager, or a material deterioration in performance, ICM may:
 - (i) if the manager holds greater than \$50 million, redeem funds from the manager, or in more serious cases, recommend to ICC that the manager be terminated; or
 - (ii) if the manager holds less than \$50 million, redeem funds from the manager, or in more serious cases, terminate the manager, following

a letter of support for such termination from the investment consultant (specified in sub-clause 4(c)).

- (i) ICM will provide ICC with a quarterly summary of the review of all external investment managers.
- (j) The investment consultant will provide ICM with updates of:
 - (i) any changes announced by an external investment manager; and
 - (ii) any changes to the investment consultant's own views and ratings of the manager, including the ESG manager rating.
- (k) The investment consultant will provide ICM with a summary report of all existing external managers every quarter.
- (l) In addition to the monitoring specified in sub-clause 4(4)(d), ICM will monitor ESG related considerations of each manager by conducting an annual survey of all external investment managers on their ESG approach, capability and performance by asset class.
- (m) ICM will establish annual asset class and portfolio-wide ESG manager rating targets.
 - (i) The targets will be established using the actual money-weighting of each manager in the portfolio by ESG manager rating within each asset class.
 - (ii) ICM will report to ICC on these targets quarterly.
- (n) ICM will develop a rolling three year operational work plan that will identify key action items, and areas of priority focus, for each asset class. This work plan will be used as a basis for annual discussions with and evaluation of external investment managers.

5 Investment products

- (1) Investment funds are administered in three fund products, each having a different time horizon and level of risk tolerance:
 - (a) Short Term Funds (STF)
 - (b) Medium Term Funds (MTF)
 - (c) Long Term Funds (LTF).
- (2) **STF**
 - (a) **Investment horizon**
 - (i) Investments expected to be held for a period less than 5 years, excluding funds in the University main bank account.
 - (b) **Investment objective**
 - (i) To match or exceed the return of the portfolio benchmark.
 - (c) **Portfolio benchmark**
 - (i) UBS Australia bank bill index.
 - (d) **NSW T-Corp nominated statutory benchmark**
 - (i) NSW T-Corp Cash Facility.

- (e) **Asset allocation**
 - (i) To be in accordance with the credit risk framework.
 - (f) **Product structure**
 - (i) The return on this fund is centrally retained to support core and strategic activities of the University.
 - (g) **Primary sources of investment funds**
 - (i) The main sources of funds comprise operational funds and working capital that can be drawn down at any time to meet operational expenditure.
- (3) **MTF**
- (a) **Investment horizon**
 - (i) MTF is an investment product in which investments are expected to be held for a period of 5 to 7 years.
 - (b) **Investment objectives**
 - (i) To outperform on a net of fees basis the return of the portfolio benchmark over the rolling 3 and 5 year periods.
 - (ii) To exceed the return of the UBS Australia bank bill index over rolling 3 and 5 year periods.
 - (c) **Portfolio benchmark**
 - (i) Weighted composite return of the portfolio asset classes.
 - (d) **NSW T-Corp nominated statutory benchmark**
 - (i) NSW T-Corp Medium Term Growth Facility.
 - (e) **Asset allocation**
 - (i) The SAA targets and TAA ranges for MTF are set out in the following table.
 - (ii) Foreign currency exposures in the overseas equities, absolute returns and growth fixed income investment sectors will be fully hedged.

Asset Class	MTF Strategic Asset Allocation(SAA) Target Weightings	MTF Tactical Asset Allocation (TAA) Ranges
	(%)	(%)
Australian equities	15	11 - 17
Overseas equities	10	6 - 12
Absolute return	15	12 - 18
Growth fixed income	5	3 - 7
Growth/alternative assets	45	40 - 55
Australian fixed interest	40	20 - 55
Cash	15	10 - 35

Defensive assets	55	45 - 65
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Note: The SAA targets and TAA ranges were approved by ICC in 2014 and will be reviewed at least every 3 years.

- (f) **Product structure**
 - (i) MTF is a unitised investment fund category.
 - (ii) MTF are set up under a parent and child general ledger account structure.
- (g) **Primary sources of investment funds**
 - (i) The main sources of funds comprise philanthropic and other funds that are not preserved but can be invested for up to 7 years.
- (4) **LTF**
 - (a) **Investment horizon**
 - (i) LTF is an investment product in which investments are held for a period in excess of 7 years or perpetuity.
 - (b) **Investment objectives**
 - (i) To outperform on a net of fees basis the portfolio benchmark over rolling 3 and 5 year periods.
 - (ii) To earn a return on a net of fees basis that exceeds the sum of the annual percentage spending rule and the average rate of inflation over rolling 5 to 7 year periods.
 - (c) **Portfolio benchmark**
 - (i) Weighted composite return of the portfolio asset classes.
 - (d) **NSW T-Corp nominated statutory benchmark**
 - (i) The NSW T-Corp nominated statutory benchmark for LTF is the Long Term Growth Facility.
 - (e) **Asset allocation**
 - (i) The SAA targets and TAA ranges for long term funds are set out in the following table.
 - (ii) Foreign currency exposures in overseas equities, private equity, unlisted infrastructure and the global balanced investment sectors will be managed in accordance with their approved target hedge ratio. The current approved ratio is 50% hedged.
 - (iii) Foreign currency exposures in the growth fixed income and absolute return investments sectors will be managed in accordance with their approved target hedge ratio. The current approved ratio is 100% hedged.
 - (iv) In order to assess the LTF portfolio's performance towards achieving SAA goals, ICM may set mid-term SAA targets and TAA ranges against which LTF will be assessed.

Asset Class	LTF Strategic Asset Allocation (SAA) Target Weightings (%)	LTF Tactical Asset Allocation (TAA) Ranges (%)
Australian equities	18	15 - 21
Overseas equities	10	7 - 13
Emerging market equities	2	0 - 4
Private equity (including Global Balanced exposure)	15	12 - 18
Sub-total Equities	45	37 - 53
Growth fixed income	4	2 - 6
Australian unlisted property	8	5 - 11
Unlisted infrastructure (debt and equity)	12	9 - 15
Absolute return strategies (including Global Balanced exposure)	12	9 - 15
Sub-total alternative assets	36	28 - 44
Total Growth/alternative assets	81	75 - 85
Australian fixed interest	15	12 - 18
Cash	4	2 - 10
Defensive Assets	19	14 - 29

Note: The SAA targets and TAA ranges were approved by ICC in 2014 and will be reviewed at least every 3 years.

(f) **Product structure**

- (i) LTF is a unitised investment fund category.
- (ii) LTF are set up under a parent and child general ledger account structure.

(g) **Primary sources of investment funds**

- (i) The main sources of funds comprise endowment capital, other philanthropic funds and the majority of the University's financial discretionary capital. Real property assets which are also designated as preserved are held separately within the Future Fund.

(h) **Exceptions**

- (i) In exceptional circumstances, in relation to the investment of large gifts, the Head ICM in consultation with the CFO and OGC can determine a specific investment strategy and a transition to LTF.

6 SAA and TAA

- (1) As markets fluctuate, the investment portfolio may require adjustments to maintain a risk and return profile that is aligned with the strategic objectives.
- (2) Investment portfolio rebalancing will be achieved by:
 - (a) applying portfolio cash flows to the various asset sectors; and
 - (b) selling assets that are underperforming or where the portfolio holding is overweight against the asset class target weighting, and using the proceeds to buy assets that are under-represented in the portfolio.

7 Investment portfolio management

- (1) **Investment risk effectively reduced by diversification**
 - (a) Defensive investments will be invested across a range of instruments, in accordance with portfolio limits that are based on credit ratings within the investment grade ratings band. The approved range of securities and holdings will be structured around the composition of the relevant benchmark index for each of the defensive investments, within specified maximum deviations.
 - (b) Growth assets will be invested across a diverse range of traditional and alternative asset types which offer the prospect of capital gain, including domestic and international asset classes, and listed and unlisted investment vehicles.
- (2) **Currency risk**
 - (a) Currency risk will be mitigated through the maintenance of an appropriate level of hedging in accordance with the ICC approved target hedge ratio through an external currency overlay manager.
 - (b) The currency overlay manager will be required to report to ICM daily on currency hedging deviations from the approved target hedge ratio for each relevant asset class, and ICM will instruct the manager to adjust the hedging as required.
- (3) **Portfolio stress testing analysis**

The investment consultant will undertake stress testing analysis of the LTF portfolio's returns under a range of historical adverse financial sector scenarios and other scenarios as may be specified by ICM from time to time. This analysis is undertaken twice a year at an asset class level. The report provided by the investment consultant will be submitted to the subsequent ICC meeting.
- (4) **Shareholder voting and public disclosure**
 - (a) A specialist proxy voting firm will be appointed to exercise voting rights attached to the University's shareholdings in the Australian equity sector investment portfolio, where the externally managed funds invested through an individual mandate.

- (b) ICM will publicly disclose on the Financial Services website twice each year summary information relating to:
 - (i) the way in which the University's voting rights in relation to entities listed on the Australian securities exchange have been exercised; and;
 - (ii) a list of the University's top 20 holdings in Australian equities sector, global listed equities (developed) and emerging markets equities sector.
- (5) **Investment performance and reporting**
 - (a) The custodian will report investment performance results as required by clause 7(4) of the policy.
 - (b) ICM will use the monthly data provided by the custodian to produce a monthly internal investment performance report showing the investment performance of the MTF and LTF investment portfolios relative to:
 - (i) their respective portfolio benchmarks; and
 - (ii) the applicable NSW T-Corp nominated statutory benchmark.
 - (c) ICM will produce a quarterly report to ICC showing the investment performance against the relevant portfolio and nominated statutory benchmark for the three investment portfolios, STF, MTF, and LTF. This quarterly report will include information on the performance of the asset sectors relative to their benchmark.
- (6) **Trading during Christmas shutdown**
 - (a) ICM will advise the custodian of the university shutdown period each year prior to the beginning of such and will seek approval from the custodian to advise them of any transactions executed during the period by email, subject to an additional ICM staff member also approving the transactions by email or phone.
 - (b) The settlement instructions for any transactions advised during the shutdown period will be completed by the custodian.
 - (c) When the University is reopened, the FCT team will email the custodian a set of instructions for any transactions processed by the custodian during the shutdown period.

NOTES

Investment Portfolio Procedures 2015

Date adopted: 1 June 2015

Last amended: 16 May 2017 (administrative amendment only)

Date registered: 3 June 2015

Date commenced:

Administrator: Head, Investment and Capital Management

Review date: 1 June 2020

Related documents:

Investment Policy 2017

Treasury Management Policy 2014

Treasury Management Procedures 2014

AMENDMENT HISTORY

Provision	Amendment	Commencing
	Replaces the previous Investment Portfolio Procedures 2013	3 June 2015
1(1); Related documents	Amending date of Investment Policy	16 May 2017

**SCHEDULE 1: CREDIT RISK FRAMEWORK
- AUTHORISED LIMITS FOR CASH AND FIXED INTEREST
INVESTMENTS**

Short Term (Maturities < 1 year)	
	Portfolio Limit
Australian Deposit-taking Institutions obligations rated A1+	Open
Australian Deposit-taking Institutions obligations rated ≥A2	33%
Floating Rate Notes¹	
Australian Deposit-taking Institutions obligations rated AAA to AA-	10%
Australian Deposit-taking Institutions obligations rated A+ to BBB-	5%
¹ Floating Rate Notes having a term to maturity not exceeding 3 years	
Long Term (Maturity >1 year)²	
	Portfolio Limit (min - max)
Commonwealth of Australia	25% – Open
Australian State and Territory Governments	25% – Open
Supernational/Sovereign	0% – 25%
Credit	0% – 25%
Credit	
Obligations rated AAA to AA-	0% – 25%
Obligations rated A+ to BBB-A-	0% – 10%
² Modified Duration Range 0.5 – 1.5 times UBS Government 0+ years Index Maturity Structure Limits 0.5 – 1.5 times UBS Government 0-5, 5-10, and 10+ Sub-Indices	
Derivatives (Effective Exposure)	
	Portfolio Limit
SFE Interbank Cash Rate Futures	\$50m
SFE Bank Bill Futures	\$50m
SFE 3 year Treasury Bond Futures	\$50m
SFE 10 year Treasury Bond Futures	\$50m