INVESTMENT POLICY 2013

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

Dated: 6 December 2013

Last amended: 6 December 2013

Signature:

Name:

Position: Senate Investment and Commercialisation Committee

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1 Name of policy

This is the Investment Policy 2013.

2 Commencement

This policy commences on 1 January 2014.

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 portfolio 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 – Administrative Functions) Rule 2010 (as amended)*.

5 Application

This policy applies to the University, staff and affiliates.

6 Definitions

alternative investments	means investment assets other than traditional investments.
benchmark indices	means performance measures, over the appropriate time frame, used to assess the performance of either or both an investment manager or investment portfolio.
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.
credit risk framework	means the ICC approved credit limits based upon rating agency credit ratings for different categories of defensive investments.
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.
defensive investments	means investments in cash and fixed interest securities.
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.
ESG manager rating	means a rating of ESG processes and considerations provided by the investment consultant and used to assess the potential security selection or investment strategy of external investment managers.

external investment manager	means a party external to the University appointed by ICC to manage investment funds under an investment management agreement.
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 – Administrative Functions) Rule 2010 (as amended)*. At the date of this policy, this is: The fund, established by the University, constituted by: (a) gifts or bequests made to the University which are the absolute property of the University, 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 (b) such other moneys as may be contributed, with or without conditions, to the fund by the University.
growth investments	means all investment asset classes except defensive investments, fixed interest and cash.
ICC	means the Investment and Commercialisation Committee of Senate.
ICM	means Investment and Capital Management which is a sub-unit within Financial Services directly responsible for investment management of the investment portfolio.
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 ICC appointed to advise the University about the investment funds portfolio.
investment funds portfolio	means funds available to be invested by ICM.
LTF	means long term funds, with investments held for a period in excess of 7 years, or in perpetuity.
MTF	means medium term funds, with investments held for a period of 4 to 7 years.
percentage rate of annual spending	means the permitted annual rate of spending from capital preserved accounts, as approved by ICC.

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.
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.
STF	means short term funds, with investments generally held for a period less than 4 years.
strategic and tactical asset allocation framework	means the mix and percentage target weights of asset classes adopted to achieve the investment funds portfolio's strategic investment objectives, including short and medium term opportunities in asset classes.
traditional investments	means investment assets limited to fixed interest, cash, listed equities and real property.

7 Responsibilities

(1) ICC is responsible for:

- (a) monitoring and overseeing the investment activities of the University;
- (b) approving the appointment and retirement of investment consultants and external investment managers;
- (c) approving the strategic and tactical asset allocation framework, following consideration of advice from ICM and the University's investment consultant;
- (d) approving the integrated ESG framework; and
- (e) 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) managing traditional and alternative investments;
- (c) making recommendations to ICC about the strategic and tactical asset allocation framework;
- (d) making recommendations to ICC about the appointment and termination of external investment managers;
- (e) requesting investment advice from investment consultants;
- (f) appointing a custodian for the provision of services including investment performance reporting;
- (g) developing an investment strategy for the University; and
- (h) providing investment reports and recommendations to ICC.

(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 shall 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 STF, MTF and LTF investments. These reports will include:

(i) portfolio performance relative to the portfolio 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 shall be engaged to be responsible for assisting ICM in:

(a) developing and refining the strategic and tactical asset allocation framework;

(b) identifying, selecting and monitoring external investment managers;

(c) specific portfolio modelling (e.g. spending amount analysis); and

(d) performance monitoring.

8 Investment principles

(1) Investment funds will be invested:

(a) in accordance with the strategic and tactical asset allocation framework; and

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

(2) Investments in defensive assets will be managed in accordance with an ICC approved credit risk framework.

(3) 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.

(4) 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.

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

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

(7) 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.

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

(9) 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 7 to 10 years. The LTF investment portfolio SAA will comprise a mix of growth, alternative and defensive investments consistent with achieving its investment return objective.

(10) The net investment return on funds invested in the MTF should exceed the rate of return of the STF portfolio over a 4 to 7 year period. The MTF investment portfolio SAA will comprise a mix of mostly defensive investments supplemented by a limited exposure to growth and alternative investments consistent with achieving its investment return objective.

(11) The net investment return on funds invested in the STF should match the bank bill index return over 12 monthly periods. The STF investment portfolio SAA will consist of liquid, short term money market instruments denominated in Australian dollars which is in accordance with the credit risk framework and consistent with meeting its investment return objective.

9 Integrated ESG framework

(1) Investment managers, including external investment managers and managers of co-mingled investment vehicles, will be required to consider ESG factors in their investment processes.

(2) The investment consultant will rate external investment managers and co-mingled investment vehicles on their ESG capabilities and performance, and will benchmark managers to encourage improvement of their ESG performance over time.

(3) Where investments are held through an individual mandate, the mandate must:

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

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

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

and

(c) incorporate ESG considerations.

(4) Where investments in co-mingled investment vehicles are held, ICM will seek information from the external investment managers with the objective of achieving exclusion of investments of the kind described in subclauses 9(3)(a) and 9(3)(b) where possible.

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(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. This will include:

(a) 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 engagement through collaborative governance initiatives or direct engagement with corporate entities in which the University is invested, where appropriate; and

(d) 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) discussion of material ESG issues and systemic risks;

(c) engagement activities; and

(d) voting.

10 Risk management

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

(2) Investment funds will be managed in accordance with the strategic and tactical asset allocation framework. This framework will be reviewed in consultation with the University's investment consultant at least every three years.

Note: See *Risk Management Policy 2013*.

11 Procedures

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

NOTES

Investment Policy 2013

Date adopted:	6 December 2013
Date commenced:	1 January 2014
Administrator:	Chief Financial Officer
Review date:	1 January 2019

Related documents:

University of Sydney Act 1989 (as amended)

Environmental Policy

Gift Acceptance Policy 2013

Gift Administration Policy 2012

Risk Management Policy 2013

Treasury Management Policy 2012

Investment Portfolio Procedures 2013

Treasury Management Procedures 2012

AMENDMENT HISTORY

Provision	Amendment	Commencing