

# INVESTMENT ACCOUNT PROCEDURES 2023

Issued by: Chief Financial Officer

Dated: 25 May 2023

Last amended:

Signature:

Name: Wayne Andrews

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## 1 Purpose and application

- (1) These procedures give effect to the [Investment Policy 2022](#) (the policy), in relation to capital preserved accounts.
- (2) These procedures apply to:
  - (a) capital preserved accounts; and
  - (b) all staff involved in the financial management of capital preserved accounts.
- (3) These procedures do not apply to orphan accounts.

## 2 Commencement

These procedures commence on 25 May 2023.

## 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.

**annual spending allocation** has the meaning set out in clause 5.

**annual spending rule** has the meaning set out in clause 4.

**capital preserved accounts** means accounts relating to gifts where:

- the terms of the relevant gift require preservation of capital; or
- University policy requires preservation of capital.

**Note:** See [Gift Acceptance Policy 2013](#) and [Gift Administration Policy 2012](#).



<b>capital units</b>	<p>means a unit of investment in the Unit Trust accounting framework that is purchased with funds held by a parent account in order to invest in the Long Term Fund and Medium Term Fund.</p> <p><b>Note:</b> Capital units hold the preserved capital of any gift preserved under University policy or by legal obligation.</p>
<b>child account</b>	<p>means the account in the Unit Trust accounting framework that holds the funds that are available to be spent for the purpose of the gift.</p> <p><b>Note:</b> The child account holds the annual spend allocation made available from the parent account to fund expenditure on the purpose of the gift, except to the extent that the Gift Administration Officer has reinvested spend allocations back into the parent account in the form of spend units. The child account also holds funds subsequently redeemed from spend units and redeemed from capital units.</p>
<b>excessive holdings</b>	<p>means, in the current year, any amount more than the annual spending rule allocation available in the Short-Term Fund for the previous year and unspent prior to the allocation of the annual spending rule allocation for the current year.</p>
<b>FCT</b>	<p>means the University's Financial Control and Treasury unit.</p>
<b>Future Fund</b>	<p>has the meaning set out in the <a href="#">University of Sydney (Delegations of Authority) Rule 2020</a>. At the date of this procedure, that is:</p> <p>means the fund, established by the University, constituted by:</p> <ul style="list-style-type: none"><li>- gifts or bequests made to the University which are its 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</li><li>- any other moneys contributed to the fund, with or without conditions, by the University.</li></ul>
<b>Gift Administration Board</b>	<p>means the Board established by clause 8 of the <a href="#">Gift Administration Policy 2012</a>.</p>
<b>gift administration officer</b>	<p>means, in relation to each gift, the person referred to in clause 9 of the <a href="#">Gift Administration Policy 2012</a>. At the date of this policy, that is:</p> <p>the delegate responsible for accepting gifts of that kind and value and establishing the terms of its management.</p>
<b>ICM</b>	<p>means the University's Investment and Capital Management unit.</p>
<b>orphan account</b>	<p>means an account in the investment accounting framework that is solely invested in the Short Term Fund (cash) and is not preserved in accordance with the <a href="#">Gift Administration Policy 2012</a>.</p> <p><b>Note:</b> Orphan accounts do not receive spend allocations and are invested in the Short Term Fund and only receive interest.</p>



**parent account** means the account in the Unit Trust accounting framework that holds the capital component of a gift that is preserved under terms of the gift or University policy, and its spend units, if any.

**Note:** The amount of the capital funding is invested in units in the Long Term Fund and Medium Term Fund. The value of the capital held by each gift is determined based on the number of units held in each fund, multiplied by the respective unit price.

**preservation of capital** means maintaining the principal sum of money in a way that seeks to preserve or grow its value in perpetuity.

**spend units** means a unit of investment that is purchased with funds that have previously been made available to a child account and which have been reinvested as there is no current requirement for the funds to be spent.

**Note:** A Gift Administration Officer can purchase spend units in the Long Term Fund or Medium Term Fund which allow those funds to continue to earn investment income that can be redeemed when appropriate to fund the purpose of the gift.

**University policy preserved funds** means funds which have been subjected to a requirement for preservation of capital as a result of the operation of University policy, rather than the terms of a trust or contract.

**Note:** See [Gift Administration Policy 2012](#).

#### 4 Annual spending rule

- (1) The University, through an annual spending allocation, will spend funds from capital preserved accounts in a manner which balances retention of the real value and purchasing power of the fund against the fulfilment of the relevant trust purposes.
- (2) In accordance with the policy, the Investment Subcommittee of the Finance Committee of Senate has approved the following annual rates of spending from capital units.
  - (a) For long term invested funds, a maximum of 4.5% of the value of the capital units, calculated in accordance with clause 5, will be available for spending each year.
  - (b) For medium term invested funds, a maximum of 3% of the value of the capital units, calculated in accordance with clause 5, will be available for spending each year.

These rates may be varied at the discretion of the Investment Subcommittee.

- (3) The annual spending rule will not apply to any capital preserved account if this would result in breach of a trust condition or a contractual obligation. In such cases the amount available for spending will be calculated consistently with the applicable terms of trust or contract.
- (4) The annual spending rule will not be applied to spend units, which arise from unspent spending allocation.

## 5 Calculating annual spending allocations

- (1) FCT will calculate the annual spending allocation budget for each capital preserved account in July in the calendar year before the spending is to take place and by reference to the annual spending rule.
  - (a) The calculation of the annual spending allocation will exclude any amounts held in the form of spend units, as spend units holdings arise from unspent spending allocation.
- (2) The calculation will be based on the average market value of the capital unit component of the capital preserved account over the previous 12 quarters, with the last quarter ending on 30 June of the calendar year prior to the spending.
- (3) In collaboration, the Trusts Office with assistance from ICM as required will make available a report on capital preserved accounts in the first quarter of the calendar year, detailing current Short Term Fund levels and patterns of spending, sourcing reports from FCT as necessary.
  - (a) For accounts showing excessive holdings in the Short Term Fund, the gift administration officers will provide information to the Trusts Office on the reasons for underspending and the plans for future spending.
    - (i) Where spending plans involve time frames which are relevant for investment in the Medium Term Fund or Long Term Fund, an investment program will be proposed by ICM and distributed to the Trusts Office, the relevant gift administration officer and Finance Director.
  - (b) For accounts with regular acquittal of spending, FCT will credit the calculated annual spending allocation to the child account in February each year as units in the Short Term Fund, funded by a redemption of capital preserved units in the parent account.
  - (c) For accounts with excessive holdings in the Short Term Fund, FCT and ICM will implement a program of investment in spend units, being a combination of:
    - (i) investment in Medium Term Fund spend units through a reduction in Short Term Fund holdings; and
    - (ii) a switch from capital preserved units in the Long Term Fund to spend units in either of the Long Term or Medium Term Funds equivalent to the annual spending rule allocation.
- (4) Unless prevented by the relevant trust conditions or contractual terms, ICM will apply an administration fee to each parent account of 0.4% of the relevant invested funds under management. The administration fee will be charged to the parent account and redeemed at the same time as the annual spending allocation is processed. Where elements of the funds are not unitised, the administration fee will be applied to funds under management.
- (5) Unless prevented by the relevant trust conditions or contractual terms, the gift administration officer may request ICM to accumulate in the parent account amounts which would otherwise be distributed annually to a child account.
  - (a) Such a request must be made in writing to FCT, before preparation of the annual spending allocation budget in July, using the [unit registry application form](#).
  - (b) The Trusts Office will review the request and obtain approval from the Gift Administration Board if required.



- (6) The processes outlined in clauses 5(3) and 5(5) must be exercised consistently with, and do not displace, the duty of a gift administration officer to spend annual spend allocations in a timely manner on the applicable trust purpose in accordance with the trust conditions and applicable laws.
  - (a) Annual spend allocations generally cannot be returned to capital; and spend units also generally cannot be returned to the capital of the gift.
- (7) If funds are accumulated in the manner specified in subclause 5(5), the gift administration officer may apply to FCT to receive a cumulative income allocation in the year that the funds are required.
  - (a) Such applications must be made in writing using the [unit registry redemption form](#), and must include evidence of the prior approval to accumulate the funds.
- (8) New capital preserved accounts will not receive spending allocations until the second year after their establishment, except if required by the relevant trust conditions or contractual terms.
- (9) Access to University policy preserved funds in excess of the annual spending allocation can be requested using the [unit registry business case form](#) and [unit registry redemption form](#), subject to review by the Gift Administration Board.

**Note:** Refer to clause 11(3) of the [Gift Administration Policy 2012](#).

## 6 Accounting arrangements

- (1) Capital preserved accounts will be held in the relevant parent account.
  - (a) As a default position capital preserved accounts will be held as units in the Long Term Fund.
  - (b) Units in the Medium Term Fund may be used as an alternative, on advice from ICM.
- (2) Redemption of annual spending allocations will be made, in accordance with the policy and these procedures, by:
  - (a) a cash income distribution from the parent account to the relevant child account; or
  - (b) issuing spend units in the Medium Term Fund or Long Term Fund, depending on spending patterns.
- (3) Spend units are available for redemption on a monthly basis and do not require a business case or referral to the Gift Administration Board. It is expected that spend unit redemption will occur only when Short Term Fund and Medium Term Fund holdings in the specific capital preserved account are at minimal levels.
  - (a) The gift administration officer must submit a [unit registry redemption form](#) to redeem spend units.
- (4) Capital preserved account codes:
  - (a) The recipient area must nominate the correct account codes for each capital preserved account.
  - (b) Project account codes:
    - (i) The Financial Planning and Analysis unit will establish the project account codes based on advice from the Trusts Office, except where the funds are for research activities.



- (ii) The Grants and Programs unit in FCT will establish the project account codes for research activities based on advice from the Trusts Office.
    - (iii) A single project account code will be used for the life of each gift fund, with the same project account code used for both the parent and child accounts.
    - (iv) The Trusts Office may request changes to the project account code as required.
  - (c) Responsibility centre account codes:
    - (i) FCT will identify the parent account.
    - (ii) The Grants and Programs unit in FCT will link the child account to the relevant parent account for research activities.
    - (iii) The Financial Planning and Analysis unit will link the child account to the relevant parent account for non-research activities.

**Note:** See [staff intranet](#) for details.

- (5) The process for redeeming capital preserved units where University policy requires the preservation of capital is:
  - (a) the appropriate faculty, University school or school officer, will complete the [unit registry business case form](#) and [unit registry redemption form](#), and forward the documentation to the appropriate gift administration officer or other relevant delegate;
  - (b) the gift administration officer or relevant delegate will review the forms and endorse the request (which acts as an expression of interest to withdraw funds) and will forward the documentation to the Trusts Office for review; and
  - (c) The Trusts Office will review the documentation and, if appropriate, refer the request to the Gift Administration Board for approval.
    - (i) The Trusts Office will review the proposed redemption to ensure it does not contravene any applicable trust or contractual terms or conditions.
    - (ii) If satisfied that there is no contravention, the Trusts Office will then refer the request to the Gift Administration Board for approval under clause 11(3) of the [Gift Administration Policy 2012](#).
  - (d) The Trusts Office will forward the approval documentation to FCT for processing.
- (6) The process for redeeming spend units is:
  - (a) the gift administration officer or relevant delegate must:
    - (i) determine that there are spend units available to redeem; and
    - (ii) complete the [unit registry redemption form](#).
  - (b) FCT will review the request and ensure the units are available to redeem, and process the redemption request and release the funds. Redemptions will be processed monthly on the last business day of the month.

## 7 Rescissions and replacements

This document replaces the *Capital Preserved Account Procedures 2020*, which commenced on 15 July 2020 which is rescinded as from the date of commencement of this document.

## NOTES

Investment Account Procedures 2023

Date adopted: 25 May 2023

Date commenced: 25 May 2023

Administrator: Chief Investment Officer

Review date: 25 May 2028

Rescinded documents: Capital Preserved Account Procedures

Related documents: University of Sydney (Delegations of Authority) Rule 2020

Gift Administration Policy 2012

Investment Policy 2022

## AMENDMENT HISTORY

**Provision**    **Amendment**

**Commencing**