

## **Investment Strategy Guidelines**

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Responsibility for review:	Director, Financial Services Directorate
Related policies or other documents:	<ul style="list-style-type: none"><li>• Public Authorities (Financial Arrangements) Act 1987 – Sch 4 (Investment Powers of Authorities)</li><li>• University of New England Act 1993 –Sect 16, (1) (e)</li><li>• University of New England (Investment Powers) Order 2003</li><li>• Schedule of Financial Delegations (8 Sept 2010)</li><li>• Investment Policy SED08/1387 18 Aug 2008</li></ul>

### A. Rationale & Scope

The following guidelines are provided in support of the Investment Policy and to guide the Financial Services Directorate in exercising its responsibility to implement the Investment Strategy.

### B. Guidelines

#### a. Roles & Delegations

##### i. **University Council**

Under Section 16 of The University of New England Act 1993, the functions of Council include investing any funds belonging to or vested in the University.

##### ii. **Finance Committee**

The Finance Committee is a committee responsible to the University Council for the governance of the University's investment activities. The responsibility of this Committee is to oversee and review investment activity, approve asset allocation strategies, review and approve any policy, guideline or procedural changes and benchmarks and approve the appointment of any investment Fund Managers and/or consultants.

##### iii. **Revenue & Investment Section**

The Revenue & Investment Section within the Financial Services Directorate attends to the day-to-day investment activities under delegation and within these guidelines. This Section is responsible for managing the day to day cash flow operational needs of the University, short term cash requirements and managing the portfolio of investment funds not allocated to external fund managers for long term investment. Based on estimates, the Section will determine broad targets for the level of available investment funds that are to be held in cash or cash equivalent forms.

b. Objective:

The primary objective of the Investment Strategy is to;

- i. Maximise the return on all funds available for investment to support the operations of the University whilst limiting exposure to risk to an acceptable level.
- ii. Ensure that the University can access its funds as and when required.
- iii. To establish a framework for monitoring the performance of investments against appropriate benchmarks.

The strategy aims to;

- i. Working Capital: ensure sufficient funds are held in the working accounts to cover immediate operational requirements whilst minimising the holding of cash in low interest bearing accounts.
- ii. Short Term Investment Portfolio (STIP) (<12 months): provide a degree of operational liquidity to meet short term operational and capital commitments by investing in secure financial instruments that are liquid, at interest rates higher than the transaction bank account and have negligible chance of loss of capital.
- iii. Long Term Investment Portfolio (LTIP) (12 months or more): augment the long term strategic objectives of the University by investing in growth asset categories aimed at returns marginally greater than fixed term interest.

c. General Investment Principles:

- i. Investments shall be made solely in the best interests of the University.
- ii. Investments shall be made with care, skill, prudence and due diligence.
- iii. Investment of funds (including in any asset category) shall be so diversified as to minimise credit risk.
- iv. Market risk and interest risk will be controlled by adopting a 'hold to maturity' philosophy with respect to directly held interest rate securities.

d. Rate of Return:

- i. Short Term investments (STIP)

Objective: The objectives for STIP have been established on the understanding that whilst short to medium term working capital needs to be drawn on at short notice, it is anticipated that in normal operating circumstances of the University a major portion of the fund pool will remain permanently invested where the opportunity for secure returns greater than "at call" deposit rates are achieved.

Return Objective: To outperform the average return of the RBA 90day Bank Bill Index.

Risk Objective: It is recognised that changes in market yields may cause some year on year reduced performance.

## ii. Long Term investments (LTIP)

Objectives: LTI objectives have been established on the understanding that the Vice-Chancellor has identified certain amounts that are available to be invested in LTIP toward which anticipated commitments beyond one year can be applied and by which are invested to achieve a return that augments such commitment.

Return Objective: To match or outperform the average return of CPI plus 4% pa over rolling 3 year periods after deduction of investment fees paid (if any) for investment management.

Risk Objective: Annual returns are expected to be quite variable with a likelihood that on average 1 year in 5 may produce a negative return.

### e. Volatility of returns and risk

In order to achieve the investment objectives, it is understood that investment returns may experience volatility and fluctuations in market value. The University will tolerate volatility as measured against the volatility of a comparable market index in each asset class and a composite index based on the strategic allocation to each asset. The indices (eg. The ASX All Ordinaries index) used as a measure of an investment manager's performance will also be used to benchmark what is allowable volatility (risk).

### f. Credit Ratings

All credit rated investments with rated institutions must be at least investment grade (greater than or equal to BBB as credit rated by Standard & Poors, Moody's Investor Services or Fitch Ratings) and must remain within the exposure limits specified in the strategy.

### g. Use of Fund Managers

The University may employ one or more Fund Managers to achieve its investment objectives. Notwithstanding, the University shall engage a Fund Manager to invest funds for the long term investment portfolio. Where the services of fund managers are used, the managers will have full responsibility for the investment of the assets, within agreed mandates. Fund managers must at all times during which investments are made, hold a current Australian Financial Services Licence and comply with their obligations under all laws including applicable ASIC policies and the conditions of any ASIC Class Order or individual relief granted by ASIC.

### h. Use of Investment Advisors

The University may engage and seek advice from an Investment Advisor for services including but not limited to assessing the risk of investment in each investment category, the combined risk and return characteristics of the investment funds relating to each category and in general product advice.

i. Authorised Investments

Authorised investments (outside of working accounts) include but are not limited to:

- Fixed interest term deposits
- Bonds
- Debentures
- Treasury Notes
- Negotiable Certificates of Deposit
- Bank Bills
- Transferable Certificates of Deposit
- Promissory Notes
- Managed Funds (LTIP under fund management)
- Funds invested with the Myer Family Company (MFC) through the UNE Foundation subject to a Deed between the University and the UNE Foundation

j. Asset Allocation:

The asset allocation guidelines will be matched to the relevant investment horizons of the established portfolios. Allocations to each portfolio will be determined taking into account the University’s cash flows, the investment timeframe and the overall attitude to risk. The portfolios have different risk characteristics that target different levels of investment performance over differing time horizons.

<b>Portfolio</b>	<b>Time Horizon</b>
Working Capital	0-3 months
Short Term (STIP)	3 -12 months
Long Term (LTIP)	> 12 months

k. Liquidity:

Funds should be accessed from portfolios within the following time periods;

<b>Liquidity</b>	<b>Accessibility</b>
Working Capital	Immediate
Short Term (STIP)	Within 5 days (giving due regard to ‘hold to maturity’ philosophy)
Long Term (LTIP)	Within 30 days

I. Investment Limits

In accordance with the approved Schedule of Financial Delegations any investment transaction exceeding \$10million or for a term of more than one year will be subject to Finance Committee approval.

m. Term to maturity

The term to maturity of investments must comply with the following total portfolio exposure limits.

Term	Total Portfolio Exposure Limits	
	Minimum	Maximum
Less than 1 year	50%	100%
More than 1 year	0%	30%

n. Investment allocation benchmarks

SHORT TERM INVESTMENT PORTFOLIO (STIP)				
Strategic Asset Allocation Benchmarks and Ranges for (STI) are as follows:				
Asset Class	Strategic Benchmark \$m	Range \$m	Strategic Benchmark %	Tolerable Range %
Fixed Interest Term Deposits	50	30-60	95	92-97
Cash	2.5	1-5	5	3-8
Promissory Notes *	0	0	0	0
Treasury Notes *	0	0	0	0
Government Bonds *	0	0	0	0
Total	52.5	31-65	100	

\* To be considered as Fixed Interest Term Deposit equivalents

LONG TERM INVESTMENT PORTFOLIO (LTIP)		
Strategic Asset Allocation Benchmarks and Ranges for (LTI) are as follows:		
Asset Class	Strategic Benchmark %	Tolerable Range %
Australian Shares	35	20-40
Overseas Shares	7.5	0-5
Unlisted Property Funds	0	0-5
Australian Listed Property	2.5	0-5
Overseas Listed Property	0	0-5
Hedge Funds	0	0-5
Fixed Interest and Cash	55	50-70
Total	100	

o. Exposure Limits

Working Capital Cash and Short Term Investment Portfolio (STIP)

<b>Financial Entity</b>	<b>Credit Rating</b>	<b>Maximum Exposure as a % of working capital and STIP</b>	<b>Maximum Exposure to one Financial Institution as a % of working capital and STIP</b>	<b>Maximum Term to maturity</b>
Licensed Bank	AAA to AA-	100%	50%	12 months
Licensed Bank	A+ to BBB	50%	40%	12 months
APRA approved Credit Unions & Building Societies	Rated or unrated	50%	25%	6 months
Commonwealth or State Government	AA- or above	50%	50%	12 months

p. Performance Benchmarking and Monitoring

The investment targets of the portfolios are as follows;

<b>Portfolio</b>	<b>Investment target</b>	<b>Term</b>
Working Capital	Cash rate	0-3months
Short Term (STIP)	RBA 90 day bank bill rate + 1%	12 months
Long Term (LTIP)	CPI + 4%	36 months
Myer Family Company through UNE Foundation	CPI + 3%	36 months

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Revisions to the Investment Strategy

Finance Committee Endorsement	9 Feb 2011
Council Approval	11 April 2011
Council Approval	5 December 2011