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 3) Property Portfolio
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**1. Intent**

This policy provides the framework and guidelines for the University's Investment Portfolio.

**2. Organisational Scope**

This Policy applies to all ECU staff.

**3. Definitions**

The [University Glossary](#) and the following definitions apply to this policy.

<b>Active Management</b>	Investment management approach which aims to out-perform its specified benchmark or index.
<b>Alternative Assets</b>	Alternative Assets are Investments which do not fit into traditional asset classes. These include private equity, hedge funds, absolute return funds, commodities and infrastructure.
<b>Benchmark</b>	To measure according to specified standards in order to compare it with and improve one's own return.
<b>Derivatives</b>	An Investment that derives its value from another Investment, such as a commitment to buy a bond for a certain sum on a certain date.
<b>Diversification</b>	A risk-management technique that mixes a wide variety of Investments within a Portfolio.
<b>Investment Applications</b>	Placing funds on Investment.
<b>Investment Manager</b>	An organisation that is responsible for managing an investment or investments on behalf of the University. The Investment Manager will manage the portfolio in accordance with the terms of a unit trust, or in accordance with the investment objectives and parameters agreed with the University through an investment mandate.
<b>Investment Redemptions</b>	Maturing or exiting funds on Investment.

<b>Investments</b>	Funds surplus to Working Capital requirements used to target higher rates of return than would otherwise be possible if left in the cheque account.
<b>Liquidity</b>	The ability to sell an asset quickly without any significant price discount.
<b>Passive Management</b>	Investment management approach which aims to perform in line with its specified benchmark or index.
<b>Portfolio</b>	A group of Investments held by an investor, investment company, or financial institution.
<b>Rate of Return</b>	The gain or loss of an Investment over a specified period, expressed as a percentage of the amount invested.
<b>S&amp;P</b>	Standard and Poor's: a provider of independent credit ratings, indices, risk evaluation, investment research, data, and valuations.
<b>Working Capital</b>	Cash required to fund short-term liabilities.

#### 4. Policy Content

This Investment Policy covers the following types of Investments held by the University:

- (a) Long Term Investment Portfolio;
- (b) Capital Funding Portfolio;
- (c) Property Portfolio (land and buildings held for Investment/commercial purposes).

This Investment Policy statement excludes Investments of a strategic and/or intellectual property nature made by the University outside the operation of these Investment types. The policy excludes Working Capital, which is covered by the Treasury Policy.

Investments identified in category (c) above are included in this Investment Policy statement for completeness, and to demonstrate the University's diversified Investment base. This policy does not determine performance objectives for these types of Investments. Any direct Investment (purchase or sale) in land or buildings for Investment, strategic or commercial purposes would be assessed on a case by case basis by Resources Committee, or delegated as deemed appropriate.

This Investment Policy only applies to Investments held by the University. Investments held by subsidiary entities are currently excluded from this Policy.

For the purposes of this Policy, any reference to a 'Rate of Return' includes returns for both capital and income components of the Investment.

#### 4.1 Principles

##### 4.1.1 Resources Committee

4.1.1.1 The University Council delegates to Resources Committee the authority to establish and maintain the Investment Policy and Investment Portfolios.

4.1.1.2 Resources Committee will monitor the performance of the Investment Portfolios on a quarterly basis.

4.1.1.3 The role of the Resources Committee is to oversee the operation and management of the Investment Policy, and to review the direction and framework on a regular basis.

4.1.1.4 The Resources Committee will report to Council the quarterly Investment performance.

4.1.1.5 The Resources Committee will recommend new Investments as required for Council approval.

4.1.1.6 An appropriate level of research must be conducted in selecting a replacement Investment Manager including, but not limited to, the organisation, staffing, processes, performance, products, costs and reporting.

#### 4.1.2 Investment Signatories

4.1.2.1 Any two of the Vice-Chancellor, Vice-President (Corporate Services) and Chief Financial Officer are authorised to initiate Investment Applications and Redemptions, to enable re-balancing to be carried out, consistent with this Policy.

4.1.2.2 For any Investments that are consistent with the working capital restrictions of the University's Treasury Policy, authorised signatories are to be consistent with the ECU's Delegations Manual.

4.1.2.3 The maximum amount for any one transaction is \$10,000,000, except for transactions to initiate new investments or changes to investment strategy that are approved by Council.

4.1.2.4 The University will keep a record of authorised signatories for each Investment held.

4.1.2.5 The appointment of Investment Managers requires endorsement from Resources Committee for Council approval. However, if urgent action is required to replace a manager, then this may be executed subject to joint approval by each of the Vice-President (Corporate Services) or Chief Financial Officer and the Chairperson of the Resources Committee. Any urgent actions executed must be reviewed by the Resources Committee at the next meeting following the action.

4.1.2.6 Urgent actions are only permitted in the case of:

- (a) An Investment Manager announces a change of senior personnel within the Investment Management team responsible for the University's Investment; or
- (b) An Investment Manager announces a material organisational change; or
- (c) If there is a significant decline in the value of the Investment Portfolio.

#### 4.2 Investment Policy - General

4.2.1 The University's decisions on Investment strategy will:

- (a) have regard to the overall circumstances of the University;

- (b) have regard to the overall objectives of each Investment type, on the basis that each type will be managed separately and without effect on the other;
  - (c) comply with all requirements of the University; and
  - (d) comply with the requirements of the ECU Act 1984 (section 38) and all other applicable legislative requirements.
- 4.2.2 The University will seek to minimise risk by appropriate diversification of its Portfolio exposures.
- 4.2.3 Each Investment type will be managed with a view to ensuring sufficient Liquidity to meet projected cash flow requirements.
- 4.2.4 The University Investments for the Portfolios are to be invested by way of:
  - (a) individual Investment Portfolios with agreed mandates;
  - (b) non-tax paid unit trusts; or
  - (c) direct Investments where appropriate in shares, property, other listed and unlisted securities and cash and short-term money market Investments.
- 4.2.5 Apart from Investment grade interest-bearing securities with maturities less than 12 months, cash and term deposits, no direct Investment will be made by the University without first considering expert professional advice.
- 4.2.6 Where the University retains the services of professional Investment Managers, the Managers will have full responsibility for the Investment of the assets, within agreed mandates.
- 4.2.7 Appointed Investment Managers will be required to comply with prudent standards of judgement, as would be compatible with the skill and expertise of a professional in the business of Portfolio management.
- 4.2.8 Where the University retains services of professional Investment advisors to assist with selection of externally managed Investments or monitor the performance of Investment Managers, the University will seek a disclosure statement, for each of the external Investments reviewed, on their independence and any actual or perceived conflicts of interest for consideration before appointment.
- 4.2.9 The University may invest in Investment products which use Derivatives, provided appropriate independent Investment advice is received. The managers of Investment products are permitted to use Derivative instruments such as futures and tools to assist with the effective management of the University's assets. Written confirmation will be obtained at least annually from each Investment Manager confirming that they have risk management processes in place in relation to their use of Derivatives and the purposes for which they are used.
- 4.2.10 The University recognises that applying the principles of Responsible Investing may better align Investment activities with the broader interests of society. Where consistent with the University's fiduciary responsibility to act in the best long-term interests of its beneficiaries, the University will:
  - (a) Ensure environmental, social and labour force factors are taken into account for any direct Investments made by the University;

- (b) Assess the capabilities of external Investment Managers to incorporate these issues; and
- (c) Aim to appoint Investment Managers which are signatories to the United Nations Principles of Responsible Investing.

#### 4.3 Investment Restrictions - General

- 4.3.1 The University will use between one and four Investment Managers for the Long Term Investment Portfolio. Additional managers may be used if and when the University believes it is appropriate.
- 4.3.2 In managing an Investment mandate on behalf of the University, an Active Investment Manager is generally restricted to:
  - (a) investing no more than 10% of the mandate in any one security or asset other than in cash; and
  - (b) investing the mandate in no more than 5% of the issued capital of any one company, without notifying the University, so that the appropriateness of the Investment can be considered and action taken where required. This restriction will only apply to assets that are invested as a portfolio managed within an agreed mandate and will not apply to investments in unit trusts.

#### 4.4 Performance Monitoring

- 4.4.1 Each Investment Portfolio's performance will be monitored separately.
- 4.4.2 The principal goals in monitoring each Investment Portfolio's performance are to determine:
  - (a) The return that a Passive Investment should have yielded from the Benchmark Portfolio;
  - (b) The margin of additional return earned by adopting the particular Investment approach;
  - (c) The performance of each Investment Manager against other similarly managed Investment products; and
  - (d) The performance of the Investment Portfolio as a whole against its objectives.
- 4.4.3 Performance for individual asset classes will be measured against suitable indices.
- 4.4.4 Performance will be monitored quarterly with a formal review at least every three years.
- 4.4.5 Where there is a significant or prolonged decline in the value of the Investment Portfolio, the performance will be monitored more frequently as requested by the Chief Financial Officer.
- 4.4.6 If Managers fail to achieve the objectives set, the University will review their appointment.
- 4.4.7 In the performance monitoring, the valuation of assets will be sourced as follows:

- (a) Term deposit assets will be valued based on the purchase price of the amount invested, plus any accrued interest earned over the period; and
- (b) Managed fund investments will be valued using the unit price and unit holding information provided by each of the investment managers. The redemption (sell) unit price will be used to reflect the value that would be obtained if the asset needed to be sold.

## 4.5 Reporting

4.5.1 Each quarter, an Investment report is to be prepared, and presented to the University's Resources Committee. The report is to include:

- (a) Total funds invested in each Investment Portfolio;
- (b) Asset allocation within each Investment Portfolio;
- (c) Total funds invested by Institution/Investment Manager;
- (d) Performance of each Investment Portfolio against relevant Benchmarks;
- (e) Performance of each manager against relevant Benchmarks;
- (f) Disclosure of the S&P credit rating for each unit trust Investment (where applicable) with a highlight to any changes in the rating;
- (g) Actual Investment income as compared to budget;
- (h) Percentage share of the University's holding in each unit trust and the number of other unit holders;
- (i) Review of compliance with this Policy; and
- (j) A detailed explanation and objective evidence for any significant or prolonged decline in the value of the Investment Portfolio.

4.5.2 The University will monitor, with the assistance of its professional Investment advisors, each of the Investment Managers on an ongoing basis against the considerations of the selection criteria (as per 4.1.1.6) to assess whether the Managers remain suitable for the University's Investment strategy. Any notable developments regarding the Managers will be outlined in the quarterly Investment report to the University's Resources Committee, along with recommended actions if required.

## 4.6 Review of Policy

4.6.1 This policy will be reviewed at three-year intervals or more frequently if circumstances warrant.

## 4.7 Long Term Investment Portfolio

### 4.7.1 Long Term Investment Portfolio Policy

4.7.1.1 The Portfolio is intended to support the development of the University. The Investments will be managed to generate income, and grow in capital value over time, whilst managing the risk of a negative return in any one financial year, in accordance with the performance objectives set from time to time.

4.7.1.2 Accordingly, Investments may be spread across the growth sectors of shares and property as well as fixed interest cash and Alternative Assets.

### 4.7.2 Investment Objectives

4.7.2.1 The long term objectives are:

- (a) to achieve an average Rate of Return of at least inflation plus 2.0% per annum over rolling seven year periods, where inflation is measured by the Australian Consumer Price Index (CPI), using the All Groups weighted average of eight capital cities from Australian Bureau of Statistics (code: 6401.0); and
- (b) the expected frequency of a negative earning rate in any one year should be no more than three years in every ten years.

4.7.2.2 The short term objective is to achieve a Rate of Return at least equal to the Benchmark return, where the Benchmark return is calculated assuming the Portfolio is invested in accordance with the Benchmark asset allocation set out below and the relevant index returns (e.g. All Ordinaries index return for Australian equities) are earned in each Investment sector.

### 4.7.3 Asset Allocation

4.7.3.1 The following table sets out the asset allocation guidelines against which the Long Term Investment Portfolio is expected to operate:

	Minimum (%)	Benchmark (%)	Maximum (%)
Australian Equities	10	30	40
International Equities (Unhedged)	5	13	30
International Equities (Hedged)	0	7	30
Property Trusts	0	5	10
Alternative Assets	0	10	20
<b>Total Growth</b>	<b>40</b>	<b>65</b>	<b>80</b>
Australian Fixed Interest	0	15	30
International Fixed Interest	0	15	30
Cash	0	5	30
<b>Total Fixed Income</b>	<b>20</b>	<b>35</b>	<b>60</b>

4.7.3.2 The following indices will be used for the calculation of the benchmark return for the Long Term Investment Portfolio:

Australian Equities:	S&P/ASX300 Accumulation Index
International Equities:	MSCI World (Ex Australia) Index in Australian Dollars
International Equities (Hedged):	MSCI World (Ex Australia) Index (hedged in Australian Dollars)

Property Trusts:	S&P/ASX300 Property Trust Accumulation Index
Alternative Assets:	CPI + 5% pa
Australian Fixed Interest:	Bloomberg AusBond Composite Bond Index (All Maturities)
International Fixed Interest:	Citigroup World Government Bond (ex-Australia) Index (Hedged)
Cash:	Bloomberg AusBond Bank Bill Index

4.7.3.3 The S&P/ASX300 Accumulation Index includes property trusts. This exposure will not be treated as Property Trusts exposure, because it is not a specific property trust Investment.

4.7.3.4 The Long Term Investment Portfolio's asset allocation, including the impact of Derivatives on an effective exposure basis, is expected to fall within the above ranges.

4.7.3.5 No more than 60% of the Long Term Investment Portfolio may be invested with any one investment management organisation.

4.7.3.7 The appropriateness of the above ranges will be formally assessed at least every three years in light of any fundamental changes in the Investment environment and changes to the Long Term Investment Portfolio's Investment policy.

4.7.3.8 From time to time, the Benchmark and ranges may need minor adjustments in order to accommodate changes made to the underlying Portfolios. The Chief Financial Officer shall approve any temporary adjustments to the asset allocation ranges and Benchmarks in order to accommodate funding requirements for the acquisition of strategic property Investments, development of existing property holdings, unplanned expenditures or to accommodate changes to the Investment mix. These temporary asset allocation adjustments shall be immediately reported to the next Resources Committee meeting.

#### **4.7.4 Distribution Policy**

4.7.4.1 In determining an annual distribution, consideration will be given to the overall circumstances of the University's strategic priorities program and the Investment environment.

4.7.4.2 The amount that will be distributed or the purposes to which it will be applied will be determined in the context of the University's annual budget.

4.7.4.3 Distributions will only be made after ensuring the real value of the Long Term Investment Portfolio is maintained (ie allowing for inflation), unless otherwise agreed.

## **4.8 Capital Funding Portfolio**

### **4.8.1 Capital Funding Portfolio Policy**

4.8.1.1 The Capital Funding Portfolio holds capital funds set aside for future building, communications and Information Technology projects, loan repayments and specified special projects. These funds are required to ensure the University operates its budgeted financial affairs on an efficient and cost effective basis and should therefore provide sufficient transaction flexibility.

4.8.1.2 The Investments will be managed to ensure preservation of capital over one-year periods.



#### **4.8.2 Investment Objectives**

4.8.2.1 The Capital Funding Portfolio's Investment objective is to achieve at least a Rate of Return equal to that of the Bloomberg AusBond Bank Bill Index over all time periods.

4.8.2.2 The short-term objective is to avoid a capital loss over a one-year period.

#### **4.8.3 Asset Allocation**

4.8.3.1 Any Investments made directly by the University are to be consistent with the University's Treasury Policy

4.8.3.2 Investments with external Investment Managers must comply with the following restrictions:

- (a) Underlying securities will be cash, floating rate notes, short-term fixed interest and other money market Securities;
- (b) The total Portfolio must maintain a minimum credit rating of AAf, as measured by S&P, at all times;
- (c) The minimum credit rating on any underlying securities is BBB- (long term) or A2 (short term), as measured by S&P;
- (d) No more than 30% of the Portfolio can be invested in asset-backed (including mortgage-backed) Securities;
- (e) No Investments can be made in Collateralised Debt or Collateralised Loan Obligations;
- (f) Underlying securities will have a maximum maturity of no more than three years;
- (g) The total Portfolio must have an average duration (i.e. sensitivity to interest rate movements) of no more than one year; and
- (h) All underlying securities must be domiciled in Australia and issued by Australian companies. For an asset-backed security, the underlying collateral is also expected to be Australian, with any overseas collateral to be reported to the University by the Investment Manager.

4.8.3.3 The appropriateness of the above allocation will be formally assessed at least once each year in light of any fundamental changes in the Investment environment and changes to the University's Investment Policy.

#### **4.8.4 Distribution Policy**

Distributions will be determined as part of the University's budget process.

#### 4.9 Property Portfolio

The Property Portfolio contains land and buildings held for Investment/commercial purposes. The returns from this Portfolio will be considered separately from the Long Term and Capital Funding Portfolios.

#### 5. Related Documents:

- [Treasury Policy ad060](#)

#### 6. Contact Information

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#### 7. Approval History

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