

RANZCP Investment Policy



Authorising Committee / Department:	Board
Responsible Committee / Department:	Finance Committee
Document Code:	POL RANZCP Investment Policy

1. BACKGROUND

The Investment Subcommittee is a subcommittee of the Finance Committee and meets as required. It is responsible for implementing this Policy.

2. PURPOSE OF THE POLICY

The purpose of this Policy is to set out the Fund's:

a) **Alignment to the needs of the RANZCP**

The investment portfolio is designed having consideration for the income and capital objectives of the RANZCP Board. The portfolio is to exhibit the characteristics and attributes required to deliver on the stated income and capital objectives.

b) **Corporate Governance**

As an organisation we believe in strong corporate governance. This policy confirms a robust and considered investment policy for the organisation. It articulates the authorities and responsibilities within the chain of processes. This reduces risk within the business and provides confidence for our stakeholders.

c) **Evidence of Prudence**

A policy paper trail which demonstrates our 'prudent' investment management principles and processes.

d) **Continuity**

We believe that investment policy continuity during times of RANZCP Board and Investment Subcommittee personnel change is important. Similarly, the investment policy will focus on the objectives through all investment market environments.

e) **Framework to review the philosophy and portfolio objectives**

This document will serve as a reference point for reviewing the organisation's investment philosophy and the portfolio objectives on a periodic basis.

f) **Framework to review the Investment Adviser**

This document will also serve as a reference point to evaluate the performance of the Investment Adviser on a periodic basis.

g) Responsible Investment

The RANZCP Board has determined that the assets of the Fund are managed in accordance with the RANZCP's stated values and aligned with best practice corporate governance, responsible and ethical investment underpinned by our vision and the stakeholders we seek to represent. The RANZCP will incorporate environmental, social and governance matters into its investment analysis and decision-making processes.

3. INVESTMENT OBJECTIVES & ASSET ALLOCATION

3.1 Asset Allocation Considerations

The following factors are to be considered when determining the asset allocation for the investment pools.

- The income tax exempt status of the RANZCP;
- The time horizon for the pool of capital.
- The investment objectives of pool of capital.
- The benefits of holding investments which provide access to franked income.
- The capital preservation requirements for the pool of capital.
- The need for sufficient liquidity to meet any distribution requirements.
- The need for diversification to appropriately manage risk across individual issuers, sectors, or instruments; and
- The potential impact of inflation and foreign exchange requiring an exposure to growth assets to maintain and/or grow the real capital value of the portfolio over the long term.

3.2 Investment objectives

The **investment return objective** for this pool is to achieve total returns (income and capital growth) after fees of Consumer Price Index (CPI) + 3% over a rolling 10-year period. The investment strategy will be set with a risk tolerance of a loss one in every seven years.

The **Strategic Asset Allocation (SAA) benchmarks** represent the long-term asset allocation the Investment Adviser believes will deliver the investment return objective over the applicable timeframe at an acceptable level of risk. It is understood that with market fluctuations, withdrawals, and contributions it is unlikely that at any point in time the actual asset allocation will equal the benchmark exactly.

The **Tactical Asset Allocation (TAA) ranges** provide flexibility to allow prudent movement of asset class positions away from the benchmark in anticipation of the opportunities and risks in each of the asset classes throughout the investment cycle.

If the Investment Subcommittee form the view that the portfolio must be liquidated or invested in a manner outside of the benchmark ranges, they will inform the Investment Adviser in writing with details of the investment approach they are seeking to implement and the term of this position.

The asset allocation benchmark and ranges for the Fund are:

Asset Class	Strategic Asset Allocation Benchmark	Tactical Asset Allocation Ranges
Defensive Assets	30%	
Cash	5%	2% to 30%
Government Bonds	0%	0% to 15%
Credit	25%	15% to 40%
Growth Assets	70%	
Real Assets*	5%	0% to 15%
Equity – Domestic	30%	15% to 45%
Equity – International	35%	10% to 50%
Uncorrelated Strategies	0%	0% to 15%
Total	100%	

* The College has significant direct property held outside the scope of this investment portfolio and must be considered. The Investment Subcommittee may consider and seek RANZCP Board approval for specific opportunities at its discretion. Also regard must be given to the fossil fuels exclusion when evaluation utilities in this space.

The investment subcommittee may make recommendations to the RANZCP Board, on the allocations that can extend outside the ranges above. This might occur in times of extreme financial circumstances.

4. INVESTMENT GUIDELINES

4.1 Responsible Investment

The Board has determined that the assets of the Fund are to be managed in accordance with RANZCP’s stated values and aligned with the interest of key stakeholders.

Integration of Environmental, Social and Governance (ESG) Factors

Based on the available evidence the Board believe that environmental, social and governance factors should be considered as part of the investment research, analysis, and the selection process. The integration of ESG factors should over the long term allow for better risk management and hence drive investment performance. ESG factors should not be used as a proxy for ethical or values-based exclusions.

The selected Investment Adviser must have a well-documented process outlining how ESG has been integrated into the investment analysis and selection process.

Integration of Ethical Considerations

The Board understands and accepts that the exclusion of industries, specific stocks or funds has the potential to limit the investment universe available to the Investment Adviser, and as such, the potential to negatively affect the risk adjusted return generated by the portfolio.

RANZCP will not knowingly invest in an organisation that operates at the expense of the environment, human rights, the public safety, and the communities in which the organisation conducts its operations or the dignity of its employees. Specifically, there will be no direct investments made in the companies listed:

- Gambling
- Alcohol
- Tobacco
- Pharmaceuticals
- Armaments
- Pornography
- Prisons
- Personal service i.e. brothels
- Health care related stocks that may have an interest in or sales to the Psychiatric Industry.

When considering Integration of Ethical Considerations further to the list of companies that there will be no direct investment in, regard should be given to individual companies that directly derive more than 5% of their sales revenues from all the above industries. This is to be measured with the MSCI ESG tool and there should be no investment in any organisation with a MSCI ESG rating below BBB. ESG and negative screens should include anything that works against the RANZCP mission.

5. ALLOWABLE INVESTMENTS & RESTRICTIONS

5.1 Allowable Asset Classes

Only investments in the following assets are permitted:

Cash:

- Cash deposits, Cash Management Trusts/investments backed by Australian licensed and regulated banks and deposit taking institutions with no less than an A- credit rating.
- Term deposits with maturities less than 90 days.

Government Bonds:

- Direct Government & Semi-Government bonds
- Managed funds that are predominantly invested in these assets

Credit:

- Corporate securities and direct securities within this class
- Direct Hybrid Capital issues
- Managed funds that are predominantly invested in these assets
- Fixed income instruments where the issuer rating is below investment grade (currently BBB/S&P) are NOT permitted

Real Assets:

- Infrastructure
- Renewables and Natural Resources
- Managed funds that are predominantly invested in these assets
- Exchange Traded Funds

Equity - Domestic:

- Direct ASX listed equities
- Listed Investment Companies, Funds or Trusts (LICs, LITs) with an Australian focus
- Exchange Traded Funds
- Managed funds that are predominantly invested in these assets (this may include Long/Short Australian Equity Funds provided they are aligned with the benchmark)

Equity - International:

- Direct International Equities - listed on a recognised major stock exchange
- Exchange Traded Funds
- Listed Investment Companies, Funds or Trusts (LICs, LITs) with an international focus
- Managed international equities products (this may include Long/Short Equity Funds provided they are aligned with the benchmark)

Uncorrelated Strategies

- Market Neutral strategies
- Global Macro strategies
- FX
- Commodities
- Managed Funds that are predominantly invested in these assets
- Exchange Traded Funds

5.2 Investment Restrictions

To ensure the overall quality of the portfolio the following apply:

- No direct investment in assets which involve lending arrangements, repurchase agreements or leverage (including warrants, options, or other derivatives)
- No single investment shall exceed 10% of the portfolio at any time other than cash or bank term deposits.
- No more than 20% of total portfolio in any one managed product or ETF.

Fossil Fuels:

A gradual divestment in Fossil Fuels investments to an initial cap of 5% of the overall portfolio over the next 12 months to October 2021. This is to be reviewed on an annual basis until ultimately complete divestment is achieved.

JBWere to provide ongoing advice on the timeline for the RANZCP to achieve complete divestment from Fossil Fuels in the RANZCP Portfolio.

The RANZCP reserves the right to consider investments on a case by case basis considering its ethical and social responsibilities.

Real Assets - Property: (primarily excluded unless express prior consent from Investment Subcommittee)

- Directly held property (Excludes property currently owned by the RANZCP)
- Listed Australian Real Estate Investment Trusts
- Listed Global Real Estate Investment Trusts

- Managed funds that are predominantly invested in these assets.

Derivatives:

- Derivatives are NOT permissible unless with the express consent of the Investment Subcommittee.

5.3 Liquidity Management

The Fund should maintain sufficient liquidity, considering the expected cash flows and costs, and allowing for any potential shortfall in the income required to meet the expected cash outflows from the Fund.

Therefore:

- 5% of the funds should be at Call and available in 24 hours
- 55% of the funds to be available as cleared funds within 5 Days
- 100% of the funds to be available as cleared funds within 365 Days

NB: Term deposits excluded.

6. REPORTING AND BENCHMARKS

6.1 Investment Adviser Reporting

The Investment Adviser will provide quarterly reports that include:

- A review of the asset allocation strategy and its appropriateness considering the changing investment environment, which may lead to rebalancing or tactical tilts.
- Performance of the Fund against the investment return objective and the strategic benchmark over various time frames.
- Performance returns within each asset class and individual investments relative to benchmark indexes over various time frames.
- A review of any fund managers, investments, and the risk profile of the portfolio; and
- Investment recommendations.

6.2 Asset Class Benchmarks

The following benchmarks are to be utilised for performance measurement of the underlying individual investment asset classes:

Asset Class	Benchmark
Cash	Bloomberg AusBond Bank Bill Index
Government Bonds	Bloomberg/Barclays Global Aggregate Treasuries Total Return Index, \$A Hedged
Credit	Bloomberg/Barclays Global Aggregate – Credit Index \$A Hedged
Real Assets	50% FTSE/NAREIT Global Property in \$A and 50% FTSE 50/50 Core Infrastructure in \$A
Equity – Domestic	S&P/ASX 200 Accumulation Index
Equity – International	MSCI ACWI Gross Total Return USD Index (AUD Unhedged)
Uncorrelated Strategies	CPI + 2%

Additionally, the performance of the portfolio will be measured against.

- CPI + 3%
- The Strategic Benchmark of the portfolio as calculated by the Investment Adviser. As the indices such as the ASX200 and the SP500 do contain a large portion of stocks that will be excluded for investment they are now less relevant. JBWere will use the Strategic Benchmark for guidance and the primary benchmark of CPI + 3% will be more relevant.

7. APPOINTMENTS & DELEGATIONS

The RANZCP Board has ultimate fiduciary responsibility for ensuring that the investment of funds is properly managed. Specifically, the Board is required to:

- Create, maintain, and review the Investment Policy and approve any changes,
- Approve asset allocation bands and investment guidelines,
- Appoint Members to the Investment Subcommittee.
- Approve the appointment or termination of an external Investment Adviser; and
- Set, review and amend when appropriate any spending or draw down policy, i.e. determine how much of the income or realised gains within the portfolios will be used for specific expenditures.

7.1 Delegations

The RANZCP Board has delegated certain authority to the Investment Subcommittee to oversee the investment management portfolio and to make portfolio related decisions.

The Investment Subcommittee functions include but are not limited to:

- Allocating funds across asset classes in a prudent manner and in accordance with the Policies investment objectives.
- Discussing and approving tactical allocations within the approved asset allocation bands.
- Nominating, appointing, overseeing, and terminating Investment Advisers, in consultation with the RANZCP Board.

- Monitoring and reporting on the performance of the investment portfolio and the performance and compliance of Investment Managers.
- Making recommendations to the RANZCP Board for approval of any changes to this Policy.
- Complying with all relevant investment policies and guidelines.

Where there is an urgent request via the Investment Adviser, the RANZCP President and two Board members must unanimously agree on a proposed investment strategy.

7.2 Appointment of External Investment Advisers

The Investment Subcommittee may appoint an external Investment Adviser to, amongst other things, invest and manage the funds as its agent. In such an event, the Investment Adviser will be contracted to manage the funds according to this Policy.

Particular emphasis will be placed on objectively selecting an Investment Adviser whose business models and approach are highly aligned with the Fund's interests and who are willing to assist the RANZCP Board, Finance Committee and Investment Subcommittee to build on internal competencies in the relevant specialist areas. Value will also be placed on the capacity for the selected Adviser to provide assistance and advice to the Fund in enhancing their mission.

The Investment Adviser must:

- hold an appropriate Australian Financial Services License (AFSL).
- have professional indemnity insurance cover and provide evidence of it upon request.
- comply with investment requirements imposed by State laws or Territory laws.
- invest and manage the portfolio(s) on behalf of the Board, including sourcing and making suitable investments in accordance with the Policy.
- keep the portfolio(s) under review, including making full or partial realisation of individual investments and to confer at regular intervals with the Investment Subcommittee regarding the management of the portfolio(s).
- Exercise due diligence and vigilance in carrying out their functions, powers, and duties under this policy; and
- Advise the Investment Subcommittee of any breaches of the Investment Policy within a reasonable time and disclose any material matters that in the opinion of the Investment Adviser should be disclosed. Also, the investment adviser should recommend a suitable course of action to rectify the position.

7.3 Investment Advice Process

The Investment Adviser will email the RANZCP Executive Manager, Finance and Business Services and or delegate with the full details of the proposed investment and any necessary disclosures and the appropriate timeframe by which a decision would be required.

7.4 Investment Adviser Performance

The performance of the Investment Adviser is to be reviewed on an annual basis. In assessing the Investment Adviser's performance, consideration will be given to the following:

- investment style.
- responsiveness.
- communication.
- proactive approach to investment opportunities.
- value adding customer service.
- flexible, accurate and timely reporting; and
- investment performance.

The RANZCP Board recognises that short-term fluctuations may cause variations in performance; as a result, the RANZCP Board intends to evaluate the Investment Adviser's performance from a long-term perspective against the primary performance measure giving regard to ethical negative screens.

7.5 Investment Adviser Review

Investment Advisers shall be formally reviewed by the Investment Subcommittee every three to five years. A material change in the circumstances of the Investment Adviser (e.g. significant change in key personnel, change in ownership structure) may trigger an earlier formal review. In addition, significant underperformance of the Investment Adviser against both the investment objectives and/or the appropriate composite benchmarks for the agreed asset allocation may result in Investment Adviser termination prior to the scheduled review.

7.6 Breaches of Investment Policy

Where the Investment Adviser is in breach of the terms of the Investment Policy, the Investment Subcommittee must conduct a review of the causes of the breach. Depending on the finding of this review the Investment Adviser may be terminated outside the formal review cycle.

7.7 Policy Review

Due to the nature of the financial markets and the potential for change in the underlying portfolio over time, an annual review of this policy, including allowable investments and restrictions will be conducted by the Investment Subcommittee in conjunction with the Investment Adviser. A review of this policy may also be triggered by a change in RANZCP's financial requirements. This review process will address issues such as any significant change in the organisation's financial position, proposals to alter the investment risk management strategy, alterations to delegated authority and any additional management information reporting requirements.

8. RISK STATEMENTS

In seeking to maximise returns, the RANZCP Board is mindful of the inherent risks. Those risks are considered because they offer a reasonable expectation of compensation in the form of returns above the risk-free rate (excess returns) over the time horizon of the Fund.

Risks accepted to pursue the investment objective fall into six categories:

8.1 Credit Risk

Credit risk (or counterparty risk) is the risk of default by the counterparty on its contractual obligations. At the Fund level, a framework exists to ensure that risk exposures remain within approved exposure limits based on the credit ratings of financial instruments and counterparties. Appointed managers of investments are required to ensure:

- The average credit quality within the manager's portfolio is within agreed guidelines.
- The exposure to different tiers of credit (including unrated debt) are within agreed guidelines.
- The maximum permitted exposure to any one issuer is within agreed guidelines.

8.2 Market Risk

The Fund holds exposure to a wide range of assets which the RANZCP Board expects will produce returns divergent from, and superior to, the risk-free rate over the long term.

Principal exposures include:

- broad equity market risk, both globally and in Australia
- broad debt market risk, including interest rate duration, credit spread duration, credit quality migration and default risks
- currency exposure, including risks of movement in the value of both the Australian dollar and the foreign currencies held
- non-uniform performance within broad asset markets (e.g. divergence in returns by sector, geographic region, growth vs. value styles, and large vs. small stocks)
- return uncertainties within the property and private markets.

8.3 Adviser Risk

The requirements on the Fund's external advisers to deliver superior returns also entail some risks. Appointed advisers may exceed or fall short of the objectives set for them by the RANZCP Board. Market returns (beta) and adviser's performance (alpha) should be largely independent (i.e. performance of an adviser relative to the broader market should not be impacted by the performance of that market itself).

Advisers risk is generally managed by:

- Careful selection and monitoring of advisers to ensure there is sufficient confidence that each adviser warrants the allocation of active risk to them.
- Monitoring the composition of the portfolios of active advisers to ensure that there are no unintended biases away from the intended investment strategy.

8.4 Operational Risk

This is general operational risk that may involve an economic loss or reputation risk. It includes fraud, theft, unauthorised use of financial instruments and other breaches of delegated authority. This also includes loss due to poor transaction documentation, inadequate information systems or human error. To minimise this risk the RANZCP will:

- keep proper accounts and records of the transactions and affairs
- maintain a sufficient internal control framework that minimises potential loss arising from unrecorded or unauthorised transactions
- place priority on the retention and recruitment of high-quality staff • ensure the availability and reliability of hardware and software systems.

8.5 Currency Risk

Investments in securities that are not denominated in Australian dollars carry the risk that movements in the value of the related currencies will impact adversely on the carrying value of the underlying investment.

Investments in non-Australian securities may be hedged to mitigate the impact of these currency movements.

A decision to invest in non-Australian securities may be a part of the approved investment strategy of the RANZCP Board and should be taken in tandem with a decision on currency hedging.

The Investment Adviser is required to identify potential risks arising on new investments from a hedged or unhedged position, and to make recommendations on an appropriate hedging strategy. In certain circumstances, an organisation may also take into consideration other factors which might influence currency risks (e.g. offshore operations or revenue sources).

8.6 Concentration Risk

RANZCP investments are to be diversified across the various asset class (Equities, Fixed interest, Cash).

RANZCP also excludes the asset class of Property via REITS both domestically and internationally from its investment policy. However, from time to time the Investment Adviser may see this as an attractive investment opportunity therefore primarily excluded unless there is prior consent from the Investment Subcommittee. The adviser should also consider limiting risk by Asset class, Country, sector, and fund managers.

Further to this no single investment shall exceed 10% of the Fund at any time other than cash or bank term deposits.

9. RELEVANT LAWS & VERSION CONTROL

The RANZCP must comply with investment requirements imposed by Commonwealth, State, or Territory laws.

The Fund is a Company Limited by Guarantee and is a Registered Charity with the Australian Charities and Not-For-Profit's Commission (ACNC).

The ACNC requires charities to meet governance standards. Under Governance Standard 4 Charities must make sure its responsible persons are suitable, and under Governance Standard 5 they must ensure their responsible persons are aware of their duties and comply with them.

Under Governance Standard 5 responsible persons must:

- act with reasonable care and diligence
- act honestly and fairly in the best interests of the charity and for its charitable purposes
- not misuse their position or information they gain as a responsible person
- disclose actual or potential conflicts of interest
- ensure that the financial affairs of the charity are managed responsibly, and
- not allow the charity to operate while it is insolvent.

9.1 Conflicts of Interest

The RANZCP Board and Investment Subcommittee members are required to disclose any conflict of interest and remove themselves from the decision-making process related to any conflict.

10. DEFINITIONS

In this document:

'RANZCP' means the RANZCP, ABN 68000439047.

'Counterparty' means the other party that participates in a financial transaction.

'Fund' means the investment portfolio consisting of the RANZCP's assets available for investment.

'Financial Year' means a one-year period ending 30 June.

'Investment Adviser' means professional and qualified firms or individuals who are engaged by the Investment Subcommittee to provide investment advice and services under contractual terms.

'Investment Subcommittee' means the Subcommittee appointed by the RANZCP Board to oversee the Fund's investment policy.

'Investment policy' means the Fund's investment objectives, guidelines and strategy as provided for in this Policy.

'Policy' means this document and its amendments from time to time.

11. ASSOCIATED DOCUMENTS

- Investment Subcommittee Terms of Reference
- Finance Committee Regulations
- Board Regulations
- RANZCP Strategic Plan

Revision Record Footer

Contact:	Executive Manager, Finance and Business Services		
Date	Version	Approver	Description
2011	1.0	GC2011	New document
2017	2.0	B2017/1 R25	Document updated to remove and create separate Terms of Reference for the Investment Subcommittee
2017	2.1	B2017/5 R28	Updated with new investment objectives and asset allocations
2021	3.0	B2021/OOSR16	Revised document
2021	3.1	B2021/OOSR44	Updated with new asset classes and asset allocations