National ELT ACCREDITATION SCHEME LIMITED (NEAS)

STRATEGIC investmentS Policy Statement

ABN 29 003 980 667

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Contents

1. Definitions and Purpose 3

1.1 Definitions 3

1.2 Purpose of this Investment Policy Statement (IPS) 3

2. Preamble and Scope 4

2.1. Mission & Value 4

2.2. Scope 4

3. Investment Objectives 5

3.1 Income Returns 5

4. Investment Guidelines 6

4.1. Asset Allocation Considerations 6

4.2. Asset Allocation Benchmarks 6

4.3. Diversification 6

4.4. Use of Alternate Investments 7

4.5. Ethical Investment Considerations 7

4.6. Allowable Investments & Restrictions 8

4.7. Investment Restrictions 8

4.8. Liquidity Management 9

5. Benchmarks and Reporting 10

5.1. Performance Reporting 10

5.2. Performance Benchmarks 10

5.3. Reporting and Administration 10

6. External Advisors and Review 11

6.1. Selection Criteria for Appointment of Advisers 11

6.2. Appointment of Investment Adviser 11

6.3. Investment Manager Performance 11

6.4. Investment Manager Review 12

6.5. Breaches of Investment Policy 12

6.6. Policy Review 12

7. Risk Statement 13

7.1. Liquidity Risk 13

7.2. Credit Risk 13

7.3. Market Risk 13

7.4. Manager Risk 13

7.5. Operational Risk 14

7.6. Currency Risk 14

8. Relevant Laws 15

8.1. Relevant State and Territory Laws 15

8.2. Taxation 15

9. Policy Adoption 16

9.1. Change History 16

# Definitions and Purpose

## 1.1 Definitions

In this document:

* ‘**NEAS**’ means National ELT Accreditation Scheme Limited, ABN 29 003 980 667;
* ‘**Fund**’ means the investment portfolio consisting of NEAS’s investable assets and NEAS strategic budgets as agreed to by the NEAS Board;
* ‘**Financial Year**’ means a one year period from 1 July to ending 30 June the following calendar year;
* ‘**Investment Manager**’ means professional and qualified firms or individuals who are engaged by the Investment Committee to provide investment advice and services under contractual terms;
* ‘**Finance, Audit and Investment Committee**’ (FAIC) means the committee appointed by the NEAS to oversee the Fund’s investment Mandate;
* ‘**Finance, Audit and** **Investment Committee Charter**’ means the document outlining the organisation, structure and responsibilities of the Members of the Finance, Audit and Investment Committee as amended from time to time;
* ‘**Investment Mandate**’ means the Fund’s investment objectives, guidelines and strategy as provided for in the Policy; and
* ‘**Investment Policy Statement (IPS)**’ means this document as amended from time to time.
* **‘Socially Responsible Investment’** (SRI) is a generic term referring to investments that integrate financial goals with positive societal values. SRI is an approach to investment that can include impact investment, ESG incrorporation and Ethical investment.
* **‘Ethical investment’** means the adoption of ‘screens’ based on moral, ethical or religious beliefs, which may lead to the exclusion or inclusion of entire sectors, companies or geographical regions.
* **Environemntal, Social and Governances (‘ESG’)** means evaluating various ESG criteria during the investment process to the extent that those criteria may be material to risk, thematic opportunities and investment performance.
* **‘Impact Investments’** are investments that are made with the specific intention of generating measureable social and environmental impacts alongside financial returns.

## 1.2 Purpose of this Investment Policy Statement (IPS)

The purpose of this IPS is to set out the Fund’s:

* **Alignment of the portfolio to the needs of the NEAS** – The investment portfolio is designed having consideration for the income and capital objectives of the organisation. The portfolio is to exhibit the characteristics and attributes required to deliver on the stated income and capital objectives.
* **Corporate Governance** – As an organisation we believe in strong corporate governance. This policy confirms a robust and considered investment policy for the organisation. It also articulates the authorities and responsibilities within the chain of processes. This reduces risk within the business and provides confidence for our stakeholders.
* **Evidence of Prudence** – A policy paper trail which demonstrates our organisation’s ‘prudent’ investment management principles and processes.
* **Continuity** – We believe that investment policy continuity during times of Board personnel change is important. Similarly, the investment policy will focus on the objectives through all investment market environments
* **A 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.
* **A framework to review the investment manager** – This document will also serve as a reference point to evaluate the performance of the investment manager on a periodic basis.

# Preamble and Scope

## Mission & Value

NEAS is a Charitable Institution with GST Concession, FBT Rebate and Income Tax Exemption. The FAIC will work under the direction of the Board to achieve the NEAS Vision and Mission in accordance with the delegations detailed in this document. Investment decisions made for the Fund are to be done so in a manner that is going to further the NEAS’s ability to achieve its mission and vision both today and into the future.

## Scope

This IPS sets the parameters for managing the Fund. The Board has ultimate fiduciary responsibility for the management of the Fund and has given delegated authority to the Finance, Audit and Investment Committee. The Finance, Audit and Investment Committee Charter sets out the objectives, responsibilities and procedures.

An overarching objective of this policy is to enable the NEAS to utilise its assets in a manner that supports long term financial sustainability. The IPS is required to be flexible and responsive to both current and future practices, whilst governing the management of funds for the very long term. The Board accepts that a portfolio of investments that is diversified across different asset classes, and which is prudently managed by expert advisers, will increase the probability of achieving its investment objectives.

The investment objective of the Fund is to achieve a sustainable position where NEAS’s cash flow supports and exceeds annual operating expenses. Wherever posisble, capital will be preserved and grown. Sound and prudent management of funds and cash flows is required in support of this objective.

# Investment Objectives

The investment objective of the capital is as follows:

## 3.1 Income Returns

The objective of the Fund is to produce capital growth and income to increase the real value of the Fund over the long term so that NEAS is better resourced to achieve its mission. This includes focusing on both the stability of the income stream, along with maximising franking credits.

The investment *return objective* for this pool is to achieve a long term total returns (income and capital growth) of Consumer Price Index (CPI) All Groups + 4% over a rolling 5 year period after fees.

The strategy adopted must be set with a *risk objective* of limiting the probability of a negative return on the total portfolio to 1 year in every 5 years. This equates to a 68% probability that the range of returns will be between -2.2% and 12.7%.

# Investment Guidelines

## Asset Allocation Considerations

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

* The income tax exempt status of NEAS funds;
* The time horizon for each pool of capital;
* The investment objectives of each pool of capital;
* The benefits of holding investments which provide access to franked income;
* The need for sufficient capital preservation requirements;
* The need for sufficient liquidity to meet the distribution requirements;
* The need for diversification to avoid over-exposure to individual issuers, sectors or instruments;
* The potential impact of inflation, requiring an exposure to growth assets in order to maintain and grow the real capital value of the portfolio over the long term; and
* The utilisation of strategic asset allocation bands and tactical asset allocation to provide for flexibility as the investment environment changes.

## Asset Allocation Benchmarks

The asset allocation benchmark and ranges for the **Fund** is:

|  |  |  |
| --- | --- | --- |
| Asset Class | Benchmark | Ranges |
| **Defensive Assets** |  |  |
| **Cash** | 10% | 0% to 50% |
| **Fixed Interest - Domestic** | 35% | 10% to 50% |
| **Fixed Interest - Global** | 5% | 0% to 30% |
| **Alternative Assets – Defensive** | 0% | 0% to 10% |
| **Growth Assets** |  |  |
| **Alternative Assets – Growth** | 0% | 0% to 10% |
| **Property** | 5% | 0% to 15% |
| **Australian Equities** | 35% | 10% to 50% |
| **International Equities** | 10% | 0% to 40% |
| **Total** | 100% |  |

Note: Total combined exposure to Australian Equities, International Equities and Alternates will not exceed 80%.

The ranges provide flexibility for liquidity events such as significant withdrawals or contributions to the Fund. The benchmark represents the long term asset allocation aim for the Fund that best reflects the desired risk profile. 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.

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

## Diversification

In accordance with a prudent approach, diversification should be employed to reduce the likelihood of the Fund generating negative returns. Appropriate diversification of managed funds and individual Investment selection will be undertaken to offset investment risk. Asset class diversification is achieved by investing in a number of different asset classes with different risk/return characteristics. Manager diversification is achieved by utilising a number of different fund managers within each asset class with different investment styles.

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

## Use of Alternate Investments

Alternative Investments are able to be utilised within the defined bands by the Investment Adviser to manage portfolio risk by diversifying away from asset classes where additional allocation would potentially lead to under-performance. The key consideration within alternative assets is a low correlation with traditional asset classes.

The Alternative Investment universe includes a wide variety of different products and strategies such as Equity long short, market neutral, global macro, commodity trading advisers (CTA) and private equity.

JBWere have an expanded definition for Alternative Assets which are split into two Asset Classes:

* Alternative Assets – Defensive
* Alternative Assets – Growth

Each Asset Class should exhibit the following characteristics:

* Alternative Assets – Defensive Strategies with more moderate return targets around cash +3% p.a. or lower and volatility profile likely to be around 3-5% p.a. (bond like volatility). These strategies aim to generate a low correlation with traditional assets classes.
* Alternative Assets – Growth Strategies targeting cash +5% p.a. returns or higher, with risk levels between bonds and equities, but may range up to equity like volatility. Expectation is for a low correlation to equities, but there are some strategies which may have some equity correlations from time to time (equity long short / variable beta strategies).

The Investment Adviser should have a rigorous process in relation to manager selection to ensure that the manager and strategy ensure that the risk reduction benefits of investment in this asset class are highly likely to be achieved. This process should be fully disclosed and discussed with the Board prior to any investment being undertaken.

An example of the key criteria:

* Underlying asset liquidity that matches the investor's liquidity requirements (daily liquidity ideal).
* Predictable (and stable) volatility (ideally with a stated volatility target).
* Low correlation with traditional assets (to provide large portfolio diversification benefits).
* Returns high enough above the cash rate to make the investment worthwhile.
* Fees that are aligned with the manager's performance.
* Long term track record of investment returns through multiple market stages.
* Team stability with high levels of experience - we want experts in their field.
* Transparent and logical leverage in the portfolio.

## Ethical Investment Considerations

The Board have determined that NEAS will not knowingly directly 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 companies deriving material sales revenues (more than 10%) from tobacco, gambling, armaments and pornography industries.

When evaluating the fund managers that may be included in the Fund, the Investment Manager will take a best endeavours approach to ensure that there is no exposure to the excluded industries and stocks identified in this Policy.

Where the Board concludes an organisation is not behaving in a socially responsible manner, it reserves the right to instruct the Investment Manager in writing (via the Finance, Audit and Investment Committee) to specifically exclude this organisation and all associated holdings from the portfolio.

The Board understands and accepts that the exclusion of industries and specific stocks has the potential to limit the investment universe available to the Investment Manager and as such limit the risk adjusted return generated by the Fund.

## Allowable Investments & Restrictions

Only investments in the following investment holdings are permitted:

**Cash:**

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

**Fixed Interest**: (Domestic and Global)

* Direct Hybrid Securities
* Direct Government and Corporate bonds
* Term deposits with maturities greater than 90 days
* Managed fixed interest products

**Domestic Equities:**

* Direct Equities
* Managed domestic equities products
* Listed Investment Companies
* Exchange Traded Funds
* Listed Real Estate Investment Trusts (REITs)

**International Equities:**

* Direct Equities
* Exchange Traded Funds
* Managed international equities products

**Alternative Investments:**

* Managed alternative asset products relating to strategies such as long / short equity, private equity, currency, unlisted property, direct infrastructure, mezzanine Investment, distressed debt, hedge funds, catastrophe bonds and commodities

**Property**

* Directly held property
* Listed Australian Real Estate Investment Trusts (REITs)
* Listed Global Real Estate Investment Trusts (GREITS)
* Managed funds that are predominantly invested in those assets.

## Investment Restrictions

The following investment restrictions apply:

* No investments in fixed income instruments rated where the issuer rating is below investment grade (currently BBB-/S&P)
* No direct investment in assets which involve lending arrangements, repurchase agreements or leverage (including warrants, options or other derivatives)
* No more than 25% of total portfolio in any one industry
* No more than 10% of total portfolio in any one issuer
* No more than 10% of total portfolio in any one stock
* No more than 20% of total portfolio in any one managed product or ETF
* Directly held international equities must be listed on a recognised major stock exchanges of North America, Europe and Japan.

## Liquidity Management

The significant majority of investment holdings are to be sufficiently readily marketable holdings that could be realised without significant delay to fund any shortfall in cash flow requirements.

# Benchmarks and Reporting

## Performance Reporting

A performance report for the Fund should be compiled and reviewed by the Finance, Audit and Investment Committee on a six monthly basis. The report should include:

* return for the Fund, expressed as a percentage;
* performance reports on individual investment Funds held;
* return on investment relative to the composite benchmark index for the overall Fund;
* the desired investment objective as documents in section 3; and
* the percentage of exposure to each asset class relative to the benchmark allocation.

## Performance Benchmarks

The following benchmarks are to be utilised:

|  |  |
| --- | --- |
| **Asset Class** | **Benchmark** |
| **Cash** | Bloomberg AusBond Bank Bill Index |
| **Fixed Interest - Domestic** | Bloomberg AusBond Composite Bond Index 0+ Yr Index |
| **Fixed Interest - International** | Barclays Capital Global Aggregate Index $A Hedged |
| **Alternative Assets – Defensive** | HFRI Portfolio of Portfolio Hedge Portfolios - Conservative $A Hedged Index |
| **Alternative Assets - Growth** | HFRI Portfolio of Portfolio Hedge Portfolios - Strategic $A Hedged Index |
| **Property** | FTSE EPRA/NAREIT Developed $A Hedged Index |
| **Australian Equities** | S&P/ASX 200 Accumulation Index |
| **International Equities** | MSCI World ex Australia Index A$ |

The Finance, Audit and Investment Committee should, on a six month basis, review the performance of the Fund using the performance benchmarks outlined above.

## Reporting and Administration

The Finance, Audit and Investment Committee will provide reports and an annual report summarising current investment strategies, the Fund’s performance, and any other relevant information to the Board.

# External Advisors and Review

## Selection Criteria for Appointment of Advisers

As stated in the Finance, Audit and Investment Committee Charter, the Finance, Audit and Investment Committee may appoint advisors in a number of areas including:

* investment policy, including asset allocation, manager research, specialist asset classes;
* legal, including advice on the statutory obligations of the Fund and assistance with contract negotiations with external parties;
* tax, including ensuring the tax obligations of the NEAS and the Fund are met and advising on the tax implications of particular investment structures (especially offshore); and
* audit, including advice on ensuring that the management controls in place within the NEAS and around the Fund are of sufficient standard.

Selection of advisors for these roles will take into account, among other criteria specific to the role:

* demonstrated commitment to best-practice portfolio management;
* the skills and experience the advisor brings to the role;
* the substance and viability of the advisor; and
* the costs that can be expected to be incurred.

The Finance, Audit and Investment Committee recognises, however, that in selecting advisors it needs to balance the benefits of a wide market search against the need to develop and implement strategy without alerting other market participants to its plans. Particular emphasis will be placed on objectively selecting advisors whose business models and approach are highly aligned with the NEAS’s interests and who are willing to assist the Fund to build on its internal competency in the relevant specialist area.

## Appointment of Investment Adviser

The Finance, Audit and Investment Committee may appoint an Investment Manager to, amongst other things, invest and manage Fund as its agent. In such an event, the organisation shall enter into an agreement with the Investment Manager directing the Investment Manager to manage the Fund according to this Policy.

The Investment Manager should:

* 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 Fund on behalf of the Investment Committee, including sourcing and making suitable investments in accordance with the Policy;
* keep the Fund under review, including making full or partial realisation of or exit from individual investments, and to confer at regular intervals with the Investment Committee regarding the investment management of the Fund;
* exercise all due diligence and vigilance in carrying out the Investment Adviser’s functions, powers and duties under the Policy; and
* advise the Investment Committee of any breaches of the Investment Mandate and any material matters relating to the Investment Manager that in the opinion of the Investment Manager should be disclosed to the Investment Committee.

## Investment Manager Performance

The performance of the investment advisor is to be reviewed on an annual basis. In assessing the investment advisor’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 Finance, Audit and Investment Committee recognises that short-term fluctuations may cause variations in performance; the Investment Committee intends to evaluate the Investment Adviser’s performance from a long-term perspective.

## Investment Manager Review

Investment Advisers shall be formally reviewed by the Finance, Audit and Investment Committee every five years.

Significant underperformance of the Investment Manager against both the investment objectives and/or the appropriate composite benchmarks for the agreed asset allocation may result in the Investment Manager termination prior to the scheduled three year review.

## Breaches of Investment Policy

Where the Investment Manager is in breach of the terms of the Investment Policy, the Finance, Audit and Investment Committee must conduct a review of the causes of the breach. Depending on the finding of this review the Investment Manager may be terminated outside the formal review cycle.

The Investment Manager will provide reporting on a quarterly basis where it will review and identify and disclose any breaches of this policy and the materiality of the breach to the Investment Committee.

A breach of more than 2% outside the benchmark ranges needs to be reported to the Finance, Audit and Investment Committee within 48 hours of the breach.

## 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 Finance, Audit and Investment Committee in conjunction with the Investment Manager.

This review process will also address issues such as any proposals to alter the investment risk management strategy, alterations to delegated authority and any additional management information reporting requirements

# Risk Statement

In seeking to maximise returns the 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 in order to pursue the investment objective fall into six categories:

## Liquidity Risk

The Finance, Audit and Investment Committee recognises that short term risks may arise from the potential of the Fund to experience a shortfall in the income required to meet the expected cash outflows from the Fund. To offset this, the Fund should:

* maintain sufficient liquidity,
* take into account the expected cash flows and costs.

## 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; and
* the maximum permitted exposure to any one issuer is within agreed guidelines;

## Market Risk

The Fund holds exposure to a wide range of assets which the 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); and
* return uncertainties within the property and private markets.

## Manager Risk

The requirements on the Fund’s external managers to deliver superior returns also entail some risks. In particular, appointed managers may exceed or fall short of the objectives set for them by the Board. Market returns (beta) and manager performance (alpha) should be largely independent (i.e. performance of a manager relative to the broader market should not be impacted by the performance of that market itself).

Manager risk is generally managed by:

* careful selection and monitoring of managers to ensure there is sufficient confidence that each manager warrants the allocation of active risk to them; and
* monitoring the composition of the portfolios of active managers to ensure that there are no unintended biases away from the intended investment strategy.

## 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 Finance, Audit and Investment Committee 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; and
* ensure the availability and reliability of hardware and software systems.

## 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

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.

# Relevant Laws

## Relevant State and Territory Laws

The Finance, Audit and Investment Committee and Board of NEAS must comply with investment requirements imposed by State laws or Territory laws. Of specific relevance are the ‘Prudent Person’ provisions enshrined in the Trustee Acts of each State.

The NEAS is a Company Limited by Guarantee. The NEAS is a Charity and is registered 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.

## Taxation

Under current Australian taxation law, the investment income or capital gains are not subject to taxation. NEAS is a Chartable Institution with GST Concession, FBT Rebate and Income Tax Exemption.

This should be recognised when selecting investment strategies.

Charities have a different review process to organisations that can self-assess their income tax status and should refer to “Review your TCC endorsement”.

The ATO recommend that NFPs review their Income tax status and deductible gift recipient (DGR) status annually. <https://www.ato.gov.au/Non-profit/Non-profit-News-Service/In-detail/Articles/Not-for-profit-News-Service---Have-you-checked-your-endorsement-and-tax-status-/>

# Delegations

## 9.1 Delegation

## The Finance, Audit and Investment Committee and Board of NEAS defines a delegation and authority process for requested changes to investments of under $5,000 by JBWere. The committee delegates decisions of this nature to the NEAS CEO, requiring no further approvals from the committee. Requested changes by JBWere above $5,000 would need written (email) approval of three committee members (i.e. CEO and two other members).

# Policy Adoption

The Policy adoption and amendments resulting from policy reviews must be approved and signed off by the Board. The Investment Committee will make all recommendations to the to the Board for approval.

This Investment Policy was adopted by



……………………………………………….

Denise Taylor

Chairperson of NEAS

Date: 14/3/2018

## Change History

|  |  |  |  |
| --- | --- | --- | --- |
| **Version** | **Approval date** | **Approved by** | **Change** |
| 1.1 | 17th September 2015 | Chair | Investment Policy Adopted |
| 1.2 | 14 March 2018 | Chair | Investment Policy Updated |
| 1.3 | 08 January 2020 | Chair | Investment Policy Updated |