THE CORPORATE TRUSTEES
OF THE
DIOCESE OF GRAFTON

INVESTMENT

POLICY

SUBJECT: **The Corporate Trustees Investment Policy**		**PROCEDURE REFERENCE NUMBER** CTS-002
DATE APPROVED 16 August 2018		**REVISION NUMBER** Revision 3 - replaces Revision 2 of 19 February 2018
POLICY IMPLEMENTATION DATE 16 August 2018	**REVIEW DATE AND FREQUENCY** 2 Yearly	**RESPONSIBLE FOR REVIEW** The Corporate Trustees

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INTRODUCTION

1. The Investment Policy for The Corporate Trustees and The Grafton Diocese Investment Fund 2008 was approved by Bishop-in-Council on 4 December 2008.

2. With the amendment of The Corporate Trustees Governance Policy on 15 September 2016 and the approval of the AFGD Investment Policy on 19 May 2016, the 2008 Investment Policy became obsolete and a replacement policy document was required.

3. This policy derives from The Corporate Trustees Governance Policy and is therefore developed to be consistent with the intent and terms of the Governance Policy.

4. The Corporate Trustees will act in the positive interests of the beneficiaries of all trust funds and property, maximise returns on investment funds within prudent limits, avoid speculative and high risk investments and seek investment diversity. The Corporate Trustees will always act in good faith with the interests of the Church paramount.

Scope

5. This policy is relevant to the investment activities of The Corporate Trustees with the exception of those investment activities undertaken by or on behalf of Anglican Funds Grafton Diocese (AFGD) which are covered by the AFGD Investment Policy and the AFGD Credit Policy.

Purpose

6. The purpose of this Policy is to complement The Corporate Trustees Governance Policy by providing specific guidance on investment activities.

7. The investment activity of The Corporate Trustees of the Diocese of Grafton is to support the not-for-profit charitable work of the Anglican Church of Australia in the Diocese of Grafton including the advancement of religion, education and welfare.

Definitions

AFGD	Anglican Funds Grafton Diocese – a Development Fund of The Corporate Trustees of the Diocese of Grafton
Australian Cash & Cash Equivalents	Includes cash at bank, term deposits and trade receivables
ASX200	The top 200 companies on the Australian Stock Exchange when ranked by the total market value of all shares issued by the company.
Blue Chip	A nationally recognised, well-established and financially sound company that generally sell high-quality, widely accepted products and services.

Capital appreciation	An increase in the price or value of assets. It may refer to appreciation of the value of shares or bonds held by an investor, an increase in land valuation, or other upward revaluation of fixed assets.
Credit Risk	The risk of loss due to failure of an investment issuer or guarantor
Financial Risk	The probability of loss inherent in financing methods which may impair the ability to provide adequate return.
Fitch	Fitch Ratings Inc. is one of the "Big Three" credit rating agencies
Hedging	A hedge is an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security.
Investment	An arrangement undertaken, acquired or maintained with the expectation of achieving a financial return through interest, profit or capital growth
Investment Managers	A person, people or organisations that make investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters specified by those clients
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.
Moody's	Moody's Investors Service is the credit rating business of Moody's Corporation and one of the "Big Three" credit rating agencies
Operational Risk	The prospect of loss resulting from inadequate or failed procedures, systems or policies; employee errors; systems failures; fraud or other criminal activity. Any event that disrupts business processes.
Property Development	Where property is altered or enhanced for the purpose of commercial gain by the sale, lease or rent of some or all of the altered property.
Risk	The uncertainty of a financial return or the probability that an actual return on an investment will be lower than the expected return.

Risk mitigation	A systematic reduction in the extent of exposure to a risk and/or the likelihood of its occurrence. Also called risk reduction.
S&P	Standard & Poor's Financial Services LLC is a division of S&P Global that publishes financial research and analysis on stocks, bonds and commodities and one of the "Big Three" credit rating agencies
Small Cap	An equity listed on the Australian Stock Exchange ranking outside of the top 200 companies by capitalisation
Social Impact Bond	Social Impact Bonds (SIBs) are a method of financing social service programs that combine outcome-based payments and market discipline. They are designed to raise private capital for intensive support and preventative programs which address areas of pressing social need and provide a return to the investor.
Speculative Investment	An investment with a high degree of risk where the focus of the purchaser is on price fluctuations and there is an attempt to profit from market value changes.

INVESTMENT PHILOSOPHY

8. The achievement of investment returns over the long term that are meaningfully higher than that achieved with bank term deposits will require some investment risk. All investments contain some risk and investments with a minimal risk will not generate sufficient returns to deliver good growth in the real value of trusts.

9. In recognising the risk inherent with investment, The Corporate Trustees also recognise that the following will have an influence on risk mitigation and overall investment performance:
   - (a) Setting investment objectives consistent with the interests of beneficiaries;
   - (b) A strategic and diversified allocation of assets over various classes;
   - (c) Monitoring the performance of investments individually or as a group versus targets and benchmarks;
   - (d) Obtaining sound advice on investment opportunities and risks;
   - (e) Understanding that it is unrealistic to predict the high or low points of markets;
   - (f) The availability of a ready market for selling an investment in whole or in part; and
   - (g) The governance and delegation processes used in making investment decisions.

10. The selection of investments will also take into account the administrative and other activities necessary to support the establishment, management and

conclusion of the investment, where many of these activities will have an unquantified or unallocated cost implication.

11. The Corporate Trustees will pool the trusts under its management for the effectiveness and efficiency of investing trust funds and managing trusts. Where considered prudent for management purposes, The Corporate Trustees will invest and manage trusts as more than one pool. The existence of more than one trust pool does not prevent The Corporate Trustees making a single investment on behalf of several trust pools.

12. Investment decisions will be based on financial returns within prudent and ethical parameters. The Corporate Trustees will not integrate ministry, community service or social justice objectives with investment decisions except to the extent directed by a resolution of Bishop-in-Council or Synod. As far as possible, The Corporate Trustees shall advise the Bishop-in-Council or Synod of the financial impact of any foreshadowed policy direction where investments are to include, or be limited by, ministry, community service or social justice objectives.

13. Cash management and term deposit investments shall be placed with AFGD. Where AFGD declines a deposit for that purpose, similar products may be arranged with the Development Funds of the Anglican Dioceses of Sydney, Melbourne or Brisbane or a commercial bank rated A (S&P, Fitch) or A2 (Moody's) or above.

INVESTMENT STRATEGY

14. The Corporate Trustees will:
    (a) Maximise, within prudent limits, the annual returns to the Diocese;
    (b) Be prudent as to the level of financial risk;
    (c) Diversify investment so as to spread risk;
    (d) Take into account the wishes of beneficiaries and the policies of the Diocese;
    (e) Consider the liquidity requirements of each investment pool;
    (f) Aim to provide reasonable stability of returns from year to year.

15. In exercising its Investment Strategy, The Corporate Trustees will have regard to[1]:
    (a) the purposes of the trust and the needs and circumstances of the beneficiaries;
    (b) the desirability of diversifying trust investments;
    (c) the nature of, and the risk associated with, existing trust investments and other trust property;
    (d) the need to maintain the real value of the capital or income of the trust;[2]
    (e) the risk of capital or income loss or depreciation;

[1] Modified list from Trustee Act 1925
[2] This provision relates to the need to be mindful of preserving capital value as a priority when making investment decisions. It does not preclude the diminishing of the capital of a trust where such is done at the request of and or the interests of the beneficiary.

(f) the potential for capital appreciation;
(g) the likely income return and the timing of income return;
(h) the length of the term of the proposed investment;
(i) the probable duration of the trust;
(j) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment;
(k) the aggregate value of the trust estate;
(l) the likelihood of inflation affecting the value of the proposed investment;
(m) the likelihood of interest rate changes affecting the value of the proposed investment; and
(n) the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

16. The Corporate Trustees will maintain its investments within the following ranges for each class of investment:

Investment Class	Minimum %	Maximum %
Australian Cash and Cash Equivalents	10%	70%
International Equities	0%	5%
Australian Equities (ASX 200)	0%	30%
Small Cap Australian Equities	0%	10%
Listed Property Trusts and Real Estate Investment Trusts (Australian)	0%	20%
Equivalent of Listed Property Trusts and Real Estate Investment Trusts (International)	0%	0%
International Fixed Interest Bonds and Securities	0%	5%
Australian Fixed Interest Bonds and Securities	0%	30%
Social Impact Bonds or equivalent	0%	5%
Direct Property Investment	0%	30%
Direct Business Investment (Sole owner or Joint Venture)	0%	15%
Other permitted types of investment	0%	5%

ETHICAL BOUNDARIES FOR INVESTMENT

17. As an ethical investor, The Corporate Trustees will take reasonable steps to ensure that:
(a) Funds are invested in compliance of all applicable laws;
(b) Funds are not to be invested in activities or deposits if there is any reasonable suspicion that they are implicated in money laundering;
(c) Investments in companies or investment products which promote any of the following are to be avoided:
(i) Pornography; or
(ii) Armaments.

(d) Investments in companies associated with serious violations of any of the following types are to be avoided:
   (i) Exploitation of the disadvantaged including discriminatory employment and violation of the rights of indigenous peoples;
   (ii) Support of repressive regimes; and
   (iii) Environmental degradation.

(e) Investments in companies or investment products whose business activity in revenue terms exceeds 15% of total turnover are in one of more of the following areas are avoided:
   (i) Mining, extracting, refining or retailing of fossil fuels;
   (ii) Activities involving heavy pollution (including carbon emissions);
   (iii) Gambling and gambling venues;
   (iv) Manufacture, distribution or sale of tobacco and tobacco related products;
   (v) Manufacture, distribution or sale of alcoholic beverages;
   (vi) Manufacture, distribution or sale of non-offensive military equipment;
   (vii) Human embryonic cloning; or
   (viii) Payday lending or other high interest lending to vulnerable clients.

(f) Where any investment has been made that is in contradiction with this policy or where a change in policy or the activity of the company has led to a contradiction with this policy, such investments will be sold as soon as practicable.

<u>RISK MANAGEMENT</u>

18. The management of risk is one of the major governance responsibilities of The Corporate Trustees.

19. Portfolios may legitimately include a combination of low risk, medium risk and high risk investments providing that the overall risk of the portfolio is acceptable.

20. If a Corporate Trustee, the Registrar, or any other person or organisation with an involvement in the consideration of an investment has a conflict of interest with regard to that investment, the conflict of interest should be declared. The Corporate Trustees shall consider how best to make and implement the investment decision whilst managing the conflict of interest.

21. All major investment decisions by the Corporate Trustees are to be accompanied by the rationale for the investment that considers the types and extent of risk involved and proposes risk mitigation for any significant risk.

22. Speculative investments are not permitted.

23. To ensure sufficient liquidity at least 10% of all investments should be able to be called in at no cost or loss of capital or mature within 7 days.

24. Where the prudent management of an investment or portfolio requires active management with monitoring and decision making in a timeframes of less than two months, The Corporate Trustees shall appoint an employee, agent or

contractor to manage the investment or portfolio within agreed guidelines. There will also be an evaluation of Operational Risk and risk mitigation considered.

25. The Corporate Trustees will ensure the evaluation of credit risk prior to any investment in a financial product except products issued by AFGD and Social Impact Bonds. Credit risk of investment portfolios will be managed by pre-qualifying any external fund managers, brokers or dealers with whom business is conducted, diversifying portfolios, and limiting investments to those rated BBB- (S&P; Fitch) or Baa3 (Moody's) and above.

26. Direct property development adds project risk to the other risks involved with investing. The increased risk means greater uncertainty of both the timing and quantum of returns from property development investments. For this reason, direct involvement in property development for investment purposes will be avoided. On the rare occasions where such projects are undertaken, it will be on the basis of a considered evaluation of risks and a risk mitigation strategy developed for each significant risk identified.

27. Property investments will be diversified to manage risk with diversification taking into account the mix of property types (commercial retail, commercial office, industrial and retail property) and the geographical spread of properties. A combination of direct investment and property trusts (listed and unlisted) will be considered.

28. The Corporate Trustees will utilise independent professional support in developing and implementing investment strategies for major investment decisions.

29. Investment in international shares will be a minority of the overall portfolio and for the purpose of diversification.

30. Foreign currency investments shall be considered as higher risk because of the effect of changes in relative values of currencies. If foreign currency investments are considered, hedging will be used as a risk management strategy.

31. Equities chosen for investment will target 'blue chip' and be limited to those listed on one or more major stock exchanges. In the case of Australian equities, the investment choice shall be biased toward those on the ASX200.

32. Insurance will be taken out on all investment property.

REPORTING

33. The Registrar shall provide The Corporate Trustees with a report at each meeting as to the value, status (including maturity date) and performance of each trust pool, major investment and class of investment.

34. The Registrar shall provide The Corporate Trustees with a report at each meeting as to the compliance with the investment limits cited in clause 16 of this policy.

PERFORMANCE ASSESSMENT AND REVIEW

35. Not less than annually, The Corporate Trustees shall compare the performance of major investments, investment classes, investment pools and the totality of its investments against relevant market benchmarks.

OTHER MATTERS

36. The Corporate Trustees may make investments or joint undertakings with other churches or investors where such an investment is prudent with regards to its risk, potential financial outcomes and the structure of the investment.

37. Authority for the day to day management of investment portfolios within the terms of this policy and resolutions of the Corporate Trustees is delegated to the Registrar as per REG-002 Staff Delegations.

38. The Corporate Trustees generally lacks the resources and the mandate to use its shareholdings for activism to encourage good corporate governance and good corporate behaviour from the companies whose shares are held by them for investment. For this reason, the opportunity to propose a motion or vote at a shareholder General Meeting will be restricted to where corporate behaviour is clearly of concern to the Anglican Diocese of Grafton and there is sufficient time to organise this action.

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