

<b>Subject: AFGD Investment Policy</b>		<b>Procedure Reference Number</b> RM002
<b>Date Approved: 19/05/2016</b> <b>The Corporate Trustees of the Diocese of Grafton</b>		<b>Revision Number – Not applicable</b> <b>to replace any previous Investment Policy</b>
<b>Policy Implementation Date: 19/05/2016</b>	<b>Review date and frequency</b> <b>19/05/2018, every two years</b>	<b>Responsible for review</b> <b>AFGD Board</b>

## 1. INTRODUCTION

- a) The Investment Policy provides guidance to Anglican Funds Grafton Diocese’s (AFGD) Board members, management and staff when managing the risks associated with making investments in assets other than the direct loans governed by the *Credit Policy*.
- b) This Investment Policy is to enable AFGD to meet its mission and role as defined in the Diocese Governance Ordinance 2008 Chapter 18 which is:
  - i) To receive deposits.
  - ii) To pay interest on such deposits at such rates as shall from time to time be determined by the Board.
  - iii) To optimise returns, within prudent limits to the Fund.
  - iv) To make available to Bishop-in-Council funds from any surplus achieved in any given year, after creation of all necessary provisions and reserves as determined by the Board of Management.
  - v) To make available by way of loans as approved by the Board from time to time to Ministry Units, Church entities in the Diocese (being under the control of Synod), clergy and full time Stipendiary Lay Ministers sums of money from the Fund at such interest rates as determined by the Board.
  - vi) To invest such funds as from time to time are not required for the purposes mentioned in Clauses i) to v) in such a manner as authorised for The Corporate Trustees.
- c) The investment risks to be managed are:
  - i) **Credit risk:** The risk of capital loss incurred through default, or that the re-rating of the security.
  - ii) **Interest rate risk:** The risk of capital loss incurred when market interest rates move adversely to those of fixed income securities held.
  - iii) **Market risk:** The risk of capital loss incurred when the same credit risk is priced at a different margin in the market.
  - iv) **Liquidity risk:** The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss.

- v) **Operational risk:** is a form of risk that summarises the risks a company or firm undertakes when it attempts to operate within a given field or industry. Operational risk is the risk that is not inherent in financial, systematic or market-wide risk. It is the risk remaining after determining financing and systematic risk, and includes risks resulting from failures in internal procedures, people and systems.

## 2. OBJECTIVE

The objectives of this Investment Policy are to ensure:

- a) Consistency with the requirements of the General Synod's Diocesan Financial Advisory Group's (DFAG) *Anglican Development Fund Minimum Standards*;
- b) That staff are provided with clear guidelines and procedures concerning the management of investments governed by this policy;
- c) AFGD Board members and management have a clear understanding of their responsibilities and delegated levels of authority with the management of investments, and
- d) That the investments made are ethical.
- e) Maximise investment returns and minimise risks by diversifying investments.
- f) Achieve investment returns that compare favourably with similar sized portfolios and appropriate performance benchmarks.

The objectives of this policy do not include investments that are direct loans, these are governed by the *Credit Policy*.

## 3. DEFINITIONS

- a) **ADI** refers to an Authorised Deposit-taking Institution as defined by APRA. The list of ADIs is found on the APRA website at <http://www.apra.gov.au/adi/pages/adilist.aspx>
- b) **AFGD Board** refers to Anglican Funds Grafton Diocese
- c) **CTs** refers to the Corporate Trustees of the Diocese of Grafton
- d) **APRA** refers to the Australian Prudential Regulation Authority
- e) **Fund** refers to Anglican Funds Grafton Diocese
- f) **Management** refers to AFGD's Fund Manager and Senior Customer Service Officer (SCSO)
- g) **Investment Managers** refers to a person, people or organisations that make investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients.
- h) **External Credit Assessment Institute** refers to a credit rating agency recognised by APRA as being competent to assess the credit worthiness of debtors.
- i) **Solicited Rating** refers to rating made by an External Credit Assessment Institute that has been initiated and paid for by the issuer or rated counterparty or a commercial associate of the issuer or rated counterparty.

- j) **Issuer:** An issuer is a legal entity that develops, registers and sells securities for the purpose of financing its operations. The most common types of securities issued are common and preferred stocks, bonds, notes, debentures, bills and derivatives.

## 4. RESPONSIBILITIES

- a) The AFGD Board is responsible for:
- i) Defining and communicating the acceptable level of investment risk;
  - ii) Recommending any amendment to this policy;
  - iii) Ensuring there are adequate management policies, procedures and controls in place to effectively manage the investment risk; and
  - iv) Ensuring this policy is reviewed at least every two years and when the regulatory, operating or investment environment changes significantly, for the approval of CTs.
  - v) Ensuring ongoing compliance of the Fund Manager and Investment Managers with the policy.
  - vi) Monitoring the performance of the investments and compliance with the policy.
- b) The CTs are responsible for:
- i) Approving the Investment Policy;
  - ii) Approving any amendments to the Investment Policy.
- c) Management is responsible for effectively managing investment risk by:
- i) Ensuring this policy is communicated to all relevant staff and contractors of AFGD;
  - ii) Effecting the policy in the day-to-day management of the investment operations of the Fund;
  - iii) Instructing and monitoring the activities of the Investment Manager(s).
  - iv) Producing all required reporting for both CTs and the AFGD Board as determined in this policy, and as directed by the AFGD Board and CTs from time to time, and
  - v) Ensuring this policy is reviewed at least every two years and when the regulatory, operating or investment environment changes significantly, for the approval of CTs.

## **INVESTMENT - RULES**

### **5. PRIORITY OF INVESTMENT**

- a) Lending to parishes and Anglican Affiliated organisations, through the mechanisms of the *Credit Policy* is the preferred investment of the assets of the Fund.
- b) Funds which, but for lack of suitable lending opportunities, would ordinarily be available for lending are eligible for investment through this policy.
- c) Should suitable lending opportunities arise subsequently, funds invested through this policy are to be re-applied to those lending opportunities.

### **6. INVESTMENT OBJECTIVES**

- a) Preserve capital.
- b) Ensure sufficient liquidity at all times.

### **7. PERFORMANCE BENCHMARK**

The investment performance benchmark shall be the BBSW 90 Day variable rate, assessed over a 12 month period at the end of each calendar year.

### **8. APPOINTMENT OF INVESTMENT MANAGERS**

- a) The investments made under this policy shall be invested in one or more deposits with an ADI, an AFGD Board approved Anglican Development Fund up to 10% of total assets or through Investment Managers.
- b) Any Investment Managers appointed shall:
  - i) Hold an Australian Financial Services Licence;
  - ii) Have a minimum of \$100m in funds under management, and
  - iii) Demonstrate competence in managing the securities approved under this policy.
- c) It shall be the responsibility of the AFGD Board under advice from Management to appoint an Investment Managers. Management is responsible to putting policy into action as per 4c.
- d) The Investment Managers will be responsible for investments which are non-cash product. It will be the responsibility of the Investment Managers to ensure that individual investments adhere to the criteria within this investment policy such as liquidity, ethical screening, an approved security and other limitations.

## 9. ETHICAL INVESTMENT REQUIREMENT

As an ethical investor AFGD will take reasonable steps to ensure that:

- a) Its funds are invested in accordance with the requirements of the law; and
- b) Investments in companies or investment products which promote any of the following are avoided; and
  - Pornography; or
  - Armaments.
- c) Investments in companies associated with serious violations of any of the following types are to be avoided:
  - Exploitation of the disadvantaged including discriminatory employment and violation of the rights of indigenous peoples;
  - Support of repressive regimes; and
  - Environmental degradation.
- d) Investments in companies or investment products whose business activity in revenue terms exceeds 15% of total turnover are avoided.
  - Mining, extracting, refining or retailing of fossil fuels;
  - Activities involving heavy pollution (including carbon emissions);
  - Gambling and gambling venues;
  - Manufacture, distribution and or sale of tobacco and tobacco related products;
  - Manufacture, distribution and or sale of alcoholic beverages;
  - Manufacture, distribution and or sale of non-offensive military equipment;
  - Human embryonic cloning; or
  - Payday lending and other high interest lending to vulnerable clients.
- e) Where any investment has been made that is in contradiction with this policy or where a change in policy or the activity of a company has led to a contradiction with this policy, such investments will be sold as soon as practicable.

## 10. APPROVED SECURITIES

- a) Only investments in Australian securities are approved.
- b) Solicited Ratings will be the only means by which to determine the credit quality of a security.
- c) The credit quality of all securities must be investment grade or better.
- d) The Investment Managers shall invest in all assets considered part of the fixed income asset class. These include but not limited to:
  - i) Cash deposits in an ADI or an AFGD Board approved Anglican Development Fund up to 10% of total assets.
  - ii) Bank bills, negotiable certificates of deposit, transferable certificates of deposit
  - iii) Term deposits in an ADI an AFGD Board approved Anglican Development Fund up to 10% of total assets.
  - iv) Government, semi-government and CPI-linked bonds
  - v) Fixed and floating rate corporate bonds and certificates of deposit
  - vi) Listed interest bearing securities
  - vii) Mortgage backed securities

- viii) Asset backed securities
  - ix) Structured securities
  - x) Fixed income funds
  - xi) Subordinated Notes
  - xii) Australian Government Bonds
  - xiii) International Government Bonds (Hedged)
  - xiv) Global Credit (Hedged)
  - xv) Australian Fixed Interest
- e) Securities that convert into equity (Hybrid Securities) will not be investments of the Fund unless approved by the AFGD Board.
- f) Any other asset type must receive specific approval of the AFGD Board.

## **11. LIQUIDITY**

- a) For the purpose of this policy rule, liquidity is defined as assets that can be sold at fair value within two weeks.
- b) Management shall seek to have 75% of the portfolio by market value in liquid assets at all times.
- c) It is the intention of the AFGD Board to maintain a position of not less than 10% of the fund's liabilities in at call deposits.

## **12. ASSET ALLOCATION**

- a) The portfolio shall be diversified by issuer and asset type.
- b) The maximum weighting to any issuer shall be the lower of:
  - i) 5% of the assets of the Fund, or
  - ii) 25% of the portfolio by market value issuer.
- c) The Investment Manager(s) will consider the available range of fixed income products in allocating funds to best meet the objectives of this policy. This will involve identifying the best value across different issuers and asset types with regard to credit quality and liquidity.

## **13. OTHER LIMITATIONS**

- a) The portfolio may not:
  - i) be used as security for any form of loan.
  - ii) use derivatives (except where derivatives, including options, are embedded in certain structured products).
  - iii) be invested in equities unless due to the conversion of a security admitted under 10(e). (However it is the intention of this policy to at all times minimise conversion risk).
  - iv) be invested in any form of property, including direct or indirect i.e. listed and unlisted property trusts.
  - v) include investments in excess of 10% of the portfolio whereby the Investment Managers is the sole distributor and primary source of liquidity.
  - vi) invest more than 30% of the portfolio's market value into primary issues. Where the Investment Managers is the lead or joint broker all fees received by the Investment Managers are to be disclosed to AFGD.

## **14. REPORTING**

- a. Management is required to report to the AFGD Board on a quarterly basis the status of the investment portfolio, including:
  - i) Performance of the portfolio (net of fees) as compared to the performance benchmark;
  - ii) The asset allocation of the portfolio, including the level of turnover of investments in the portfolio;
  - iii) Any information concerning past or potential future breaches of this policy, and
  - iv) And other information that the AFGD Board may require from time to time.
  - v) Breach of this policy shall be reported to the AFGD Board immediately.

## **RELATED DOCUMENTS**

- Diocese Governance Ordinance 2008 Chapter 18.
- AFGD Credit Policy
- General Synod's Diocesan Advisory Group's (DFAG) Anglican Development Fund Minimum Standards