THE CORPORATE TRUSTEES
OF THE
DIOCESE OF GRAFTON

INVESTMENT POLICY –
TRUST FUND INVESTMENT POOL

SUBJECT: **THE CORPORATE TRUSTEES INVESTMENT POLICY**		**REFERENCE NUMBER** CTS-002
DATE APPROVED 29 May 2025 by The Corporate Trustees		**VERSION 8** replacing version dated 29 July 2022
IMPLEMENTATION DATE Immediate	**REVIEW FREQUENCY** As required but at least 3 yearly	**RESPONSIBLE FOR REVIEW** The Corporate Trustees

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INTRODUCTION

1. This Investment Policy Statement (IPS) directs the strategy for certain funds held in trust for various beneficiaries by The Corporate Trustees of the Diocese of Grafton (Trustees) known as the Trust Fund Investment Pool (TFIP). This IPS is the key written document setting out the expectations, principles and goals the Trustees have regarding the investment of the TFIP assets, and helps ensure effective communication between relevant stakeholders.

2. This IPS:
   (a) sets out an investment approach suitable for meeting the endowment responsibilities of the TFIP.
   (b) recognises that the TFIP may from time to time include assets (e.g. direct property holdings) considered necessary for the Diocese of Grafton's ministry objectives as referenced in Items 63 to 65.
   (c) recognises that the TFIP includes legacy financial assets and property holdings as referenced in Items 59 to 62.
   (d) does not include the assets outside of the TFIP for which the Trustees are responsible.

3. The TFIP's purpose is to support the not-for-profit charitable work of the Anglican Church of Australia in the Diocese of Grafton especially with regard to the advancement of religion.

4. In achieving its purpose, the focus of the IPS is upon achieving a positive financial return on the assets of the TFIP and does not generally incorporate ministry, community service or social justice objectives into the investment process except as detailed under Items 54 to 58.

5. Reviews within this policy are:
   (a) each calendar year, the investment consultant will review the Strategic Asset Allocation (SAA) and, if necessary, recommend changes for the desired level of risk and return (annual review).
   (b) every third calendar year, and taking into account the annual reviews, the policy will be reviewed in full (full review).
   (c) where there is a substantial change in the TFIP's circumstances, the policy will be reviewed with regard to any specific material change identified.

GOVERNANCE

6. The *Trustees* will be responsible for:
   (a) Ensuring appropriate governance and management and processes, including the review of, and approval of updates to, this IPS.
   (b) Approving investment strategy, and an appropriate strategic asset allocation.
   (c) Approving allocation to particular investment managers and investment funds.
   (d) Approval of applications from trust beneficiaries for redemptions.
   (e) Annual review on the performance of the Investment Consultant.
   (f) Approving the annual report to the Synod of the Diocese of Grafton.

7. The Trustees delegate management of this IPS to the *Registrar* as per REG-002 Staff Delegations. The Registrar can then further delegate to *Diocesan staff* and contractors as the Registrar sees fit, including:
   (a) Providing ad hoc reporting on the TFIP.
   (b) Liaising with investment managers and the investment consultant to ensure effective management and communication related to the investment portfolio.
   (c) Valuing the TFIP as at the end of each calendar quarter and as required.
   (d) Developing and managing an effective application and redemption process for beneficiaries.
   (e) Maintaining an accurate record of the value and movement of value of each trust within the TFIP.
   (f) Undertaking other accounting and administration for the TFIP, including franking credit reclaims.
   (g) Providing valuation and cash flow information to the investment consultant for their quarterly reports of investment performance.
   (h) Updating liquidity forecasting, and forecast liquidity needs, on a rolling 4 calendar quarter basis as per Item 32.
   (i) Report annually on the performance of the Investment Consultant.
   (j) Making investment placements and rebalancing, as approved by the Trustees.
   (k) Ensuring any fee rebates are being received.
   (l) Manage and invest cash and term deposits excluded from TFIP for cashflow management purposes.
   (m) Providing further analysis and reporting as per Item 9.

8. The *Investment Consultant* will be responsible for:
   (a) Recommending a Strategic Asset Allocation consistent with the Trustees investment objectives and risk appetite, including the annual Strategic Asset Allocation Long-Term Reasonableness Check (SAALTRC) (Item 49) and custodian concentration check (Item 28(j)).
   (b) Recommending Investment Managers and Investment Funds consistent with the approved Strategic Asset Allocation.
   (c) Providing a risk evaluation of major investment decisions.
   (d) Provision of calendar quarterly TFIP performance, other agreed measures and relevant information in an agreed format.
   (e) Assessing individual investment managers against any factors it deems relevant, which may include investment style, resources, organisational strength, price and investment performance.
   (f) Advising the Trustees and/or Diocesan staff, as appropriate, regarding investment manager responses.
   (g) Undertaking such other actions, or providing advice, as may be agreed with the Trustees and/or Diocesan staff.
   (h) Reporting periodically on investment performance, material trends, and the estimated costs of investments and trading.
   (i) Where TFIP applications and redemptions exceed liquidity forecasts, provide a report on the costs involved.
   (j) Providing further analysis and reporting as per Item 9.

9. The rolling schedule for reports, in addition to periodic performance reporting, is:

Rolling Reporting Schedule, in addition to standard performance reporting:

Quarter	Focus Topics:	IPS Item:	Managed By: (A)
1 (B)	Annual SAA Review ESG review Annual Report to Synod Full IPS Review (every 3rd year)	5(a), 44-49 55(a) 6(f) 5(b)	IC DS & IC DS DS & IC
2	Review of IC	7(i)	DS
3	IM presentations (C) Liquidity stress testing (every 3rd year)	10(f) 31(c)	IC & DS DS & IC
4	Counterparty Risks Review of Transitional Assets Estimated investment costs (every 3rd year)	51 59 8(h)	IC & DS DS & IC IC

(A) DS = Diocesan Staff, IC = Investment Consultant

(B) Program commenced in 2021. Quarters based on 1 January to 31 December year

(C) Maximum of 4 fund managers to present

10. Each *investment manager* will be responsible for:
    (a) Managing its portion of the TFIP's capital in accordance with relevant governing documents, and any applicable legislation.
    (b) Provide a statement each year as to whether the relevant approved investment complies with the environmental, social and governance (ESG) requirements of this policy.
    (c) Respond to periodic ESG surveys (Item 57(b)).
    (d) Notifying the investment consultant promptly of the reasons for, and date(s) of, any significant deviation to their mandate, as well as details of remedies.
    (e) Supplying to the investment consultant any appropriate reports as required, including any relevant data for the consultant to complete in its own reporting on the TFIP.
    (f) Participating in relevant meetings as requested.

<u>INVESTMENT BELIEFS</u>

11. Appropriate investment governance is the precursor to making effective investment decisions. Good investment governance includes the effective use of time, money, resources and diversity of thinking and experience.

12. Higher returns are associated with greater risk of the loss of capital value, particularly over the shorter term.

13. Diversification reduces risk, and therefore should be used to the maximum practical extent.

14. Strategic asset allocation is the major determinant of variation in portfolio returns; but an effective and sparingly used dynamic asset allocation process can add value at the margin.

15. Active management may return a premium over time but requires additional resources, skill and information.

16. Markets have a strong behavioural element, and can be significantly mispriced for an extended period of time. This creates opportunities for the patient investor.

17. Investment strategy is to account for liquidity needs of the TFIP.

18. Historical returns on investment are not a guarantee of future returns.

19. It is impractical to "time" markets with anything less than a long-term timeframe.

20. Everything else being roughly equal, less operationally intensive investments are to be preferred.

21. An ESG investment focus is consistent with the Diocesan Mission (Items 54 - 58).

RETURN

22. The TFIP's overall return objective is *CPI* + 3% p.a. over a rolling 5-year timeframe (after fees, an uplift for any franking credits, and adjusted for foreign taxes).

23. The return objective is to be sought whilst aiming to take on a prudent level of investment risk (Items 26 - 30).

24. Although there is no aim to maintain the total real value of the TFIP allowing for beneficiaries needing funds for ministry purposes, the investment strategy is designed to both maintain and increase the real value of the funds invested.

25. The return objective will be sought by investing in approved investments, and using the agreed asset allocation, as shown in Item 45.

RISKS

26. Risk management is a major governance responsibility of the Trustees. While each investment is assessed for risk, the more important consideration is the risk/return characteristics of the TFIP overall.

27. The Trustees have identified various material investment risks, including:
    - (a) *Governance* – The potential for fiduciaries, staff and service providers to make sub-optimal recommendations and decisions.
    - (b) *Market risk* – The risks associated with the overall returns from different asset classes.
    - (c) *Inflation* – The risk that beneficiaries' assets won't be enough to meet their goals, given the loss of value of money over time due to inflation.
    - (d) *Interest rates* – Unexpected rises and falls in interest rates reduces the value of some investments.
    - (e) *Currency* - Investing in a foreign country, and then having the value of that currency decline compared to the Australian Dollar.
    - (f) *Credit* – Money which has been lent out, (whether by deposits, bonds etc.), not being paid back in part or full.

(g) *Financial* – Failure to get back money invested in owning a share of a business, due to it failing or underperforming.
(h) *Liquidity* - The degree to which an investment can be sold quickly without needing to take a significant loss on it.
(i) *Operational* – The risk that an investment doesn't work as expected because a person has made an error, for example in unit pricing
(j) *Custodial* – The failure in the custody of TFIP assets.

28. The primary mitigants of the investment risks stated in Item 27 include:
(a) *Governance* –
- Periodic updating of this IPS.
- Appropriately trained and resourced investment consultant and Diocesan staff.
- Setting objectives appropriate to the collective interests of beneficiaries.
- Appropriate management of conflicts of interest (Item 56).
- Appropriate framing of major proposals (Item 30).

(b) *Market risk* - Investment managers making appropriate investments in less correlated assets.
(c) *Inflation* – Investment managers making appropriate investments.
(d) *Interest rates* – Investment managers making appropriate investments.
(e) *Currency* – Investment managers making appropriate investments. Overall, the TFIP has a high level of exposure to the Australian dollar, which is in line with its obligations to its beneficiaries.
(f) *Credit* – Investment managers making appropriate investments.
(g) *Financial* – Investment managers making appropriate investments.
(h) Liquidity - Investment managers making appropriate investments. Extra controls as detailed in Liquidity in Item 31.
(i) *Operational* – Appropriately trained and resourced investment related advisors, such as custodians and administrators, and Diocesan staff.
(j) *Custodial* – No custodian holds more than 50% on a dollar weighted basis of TFIP assets.

29. Each of the above investment risks will be managed by appropriate diversification.

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

LIQUIDITY

31. Appropriate levels of TFIP liquidity are important to meet known or likely requests for distributions and capital calls for approved investments. The overall aim is for the TFIP to have a minority of assets with low liquidity. Sufficient liquidity will be maintained in various ways including:
    - (a) Having less than 30% in illiquid investments across the TFIP where illiquid is defined as being unlikely to be available within 31 business days under normal market conditions and/or an expected cost/loss of capital of less than 0.5%.
    - (b) Undertaking a triennial liquidity stress test, which models the impact of extreme but plausible outflows outside the control of the Trustees.
    - (c) The Trustees retaining the power to defer or not approve requested redemptions.
    - (d) Ensuring that the TFIP is supplemented by sufficient cash investments as per Item 32.

32. Diocesan Management shall regularly calculate the rolling 12 month cash needs relating to the Corporate Trustees' trust management obligations and the requirement of trust beneficiaries and, as a minimum, invest equivalent funds according to this forecast in cash products (e.g. working accounts, cash management accounts, term deposits) with Australian banks having a minimum short-term credit rating of A1/P1/F1 with one or more of Standards & Poor's/Moody's/Fitch respectively. Alternatively, investment into First Sentier Institutional Cash Fund with APIR code FSF1809AU is approved under this policy.

LEGAL

33. The Corporate Trustees of the Diocese of Grafton is an existing corporate body defined under Section 3 of the Anglican Church of Australia Trust Property Act 1917 [NSW]. The management and investment of the TFIP is covered under Part 5 of the Act.

34. A useful guide to investment governance, (albeit not binding on the Trustees as they are subject to the legislation listed in Item 32), is the Trustee Act 1925 [NSW]. Section 14C deals with the matters to which trustees in general are to have regard when exercising power of investment; Item 43 provides a version of this translated to the Trustees requirements.

TIME HORIZON

35. The time horizon of the TFIP is in perpetuity.

36. TFIP performance will be primarily assessed over a rolling 5-year timeframe.

37. Performance reporting of the TFIP overall will be for the rolling time periods of 10 years, 5 years, calendar year to date and the last calendar quarter against the appropriate benchmark.

TAXATION

38. The Trustees' tax status is an important consideration in its investment strategy.

39. The Trustees are in effect an Australian resident not for profit which does not pay income or capital gains tax on Australian investments, but does receive franking credits.

40. The Trustees do pay tax on non-Australian investments, which in most jurisdictions means taxation on income, not capital gains. Given no Australian income tax is paid, the Trustees are unable to use foreign tax credits, and so these may be lost.

41. The Trustees' Financial Year ends on 31 December.

INVESTMENT STRATEGY

42. The Trustees will:
   - (a) Attempt to maximise TFIP's returns within prudent limits.
   - (b) Be prudent as to the level of financial risk.
   - (c) Diversify investment so as to spread risk.
   - (d) Conform with the policies of the Diocese.
   - (e) Consider the combined liquidity requirements of beneficiaries.

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

44. The Investment Strategy is founded upon an asset allocation designed to provide an appropriate combination of risk and return over the investment time horizon.

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[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.

45. The approved Strategic Asset Allocation (SAA) is:

Asset Class (1)	**Target**	**Range**
Equities – Listed (4)	40	25-60
Equities – Private (4)	20	5-30
Total Growth	**60**	55-65
Bonds – Listed & Private	30	10-40
Alternatives & Cash (3)	10	2-30
Total Conservative	**40**	35-45

(1) Some asset classes, such as property, will be proxied using a mix of the asset class definitions shown above, as determined by the investment consultant. (2) For private equity, only actual exposures, not commitments, are shown. Private equity commitments will also be monitored to avoid over exposures. (3) Alternatives include all other income assets. Cash includes effective and actual cash positions. (4) Includes Real Estate Investment Trust (REIT) investments

46. The domestic asset holdings in the SAA are to be a minimum of 40% to a maximum of 90% of investments.

47. The SAA is achieved through a combination of approved investments.

48. The current list of approved investments can be found at Schedule 1.

49. Since target return funds (TRF), which constitute most of the approved investments, do not have fixed asset allocations, a Strategic Asset Allocation Long Term Reasonableness Check (SAALTRC) will be conducted annually.

50. The cash allocation of the SAA will consist of:
  (a) An investment bank account with an Australian ADI to receive all distributions from underlying TFIP investments.
  (b) Cash exposures in approved investments.

51. Conformance to the asset class ranges will be included in quarterly reporting to the Trustees.

52. During approved transitions between managers, or due to changing asset allocations, exposures can be outside approved asset allocations in Item 45 for a period of up to 25 working days without the requirement for approval from the Trustees.

53. To minimise a form of counterparty risk, the TFIP's total holding in any security shall not exceed 10% of the entire value of the TFIP. For clarity:
  (a) securities are the underlying holdings in approved investments.
  (b) the debt and equity securities of an individual organisation will be considered one security in aggregate.
  (c) Investments that follow the form of Item 32, Item 50(a), or are issued by the Australian Government, are not included in this measure.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES

54. The Trustees believe that having an ESG investment focus aligns with the Diocesan Mission.

55. *Category A ESG exclusions* means the TFIP will not include investments where gross combined revenue from underlying investments in the following activities exceeds 1%:
   (a) Pornography
   (b) Armaments
   (c) Money laundering
   (d) Companies associated with serious violations of:
      i. Exploitation of the disadvantaged including the rights of indigenous peoples, or
      ii. Supporting repressive regimes.

56. *Category B ESG exclusions* means the TFIP will not include investments where gross combined revenue from underlying investments in the following activities exceeds 15%:
   (a) Fossil fuels - mining, extracting or retailing.
   (b) Heavy polluting activities or environmental degradation.
   (c) Gambling and gambling venues.
   (d) Tobacco and tobacco related products - manufacture, distribution or sale.
   (e) Alcoholic beverages - manufacture, distribution or sale.
   (f) Military equipment (excluding armaments).
   (g) Human Embryonic Cloning.
   (h) Payday lending or other high interest lending to vulnerable clients.

57. Other *ESG requirements* are:
   (a) Compliance of the TFIP with Items 54 to 56 will be reviewed annually.
   (b) Investment managers are key partners in enabling the Trustees ESG stance. Amongst other initiatives, a copy of the IPS will be periodically provided to Investment Managers of approved investments and Investment Managers of prospective investments. The Investment Manager will be obligated to declare any circumstance of which they are aware that may constitute a material breach of ESG requirements.
   (c) Where Diocesan staff or the Investment Consultant becomes aware of a material probability of a breach of the ESG requirements, it will be investigated, and a recommendation provided to the Trustees.
   (d) TFIP funds are invested in approved investments which comply with all applicable laws. Any significant breach of applicable laws by an investment manager will be reported to the Trustees as soon as practicable.
   (e) All investment managers of approved investments shall have at least provisional status as signatories to the Principles of Responsible Investment (PRI).

(f) The Trustees acknowledge that:
   i. ESG requirements can increase investment costs and reduce the range of available investments which in combination can reduce net returns.
   ii. There is a reliance on third party investment managers to interpret and implement ESG requirements.
   iii. Measurement of ESG requirements can be imprecise and uncertain due to the subjectivity of those requirements, and the lack of an appropriate level of information on a particular issue.

58. If a 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 Trustees shall consider how best to make and implement the investment decision whilst managing the conflict of interest.

TRANSITIONAL ITEMS

59. Currently, the assets of the TFIP contain legacy investments that are regarded as transitional items. Transitional items may not comply with the investment strategy, are not included in the SAA or exceed the SAA range, and are not relevant for liquidity calculation purposes. They will also not be a material focus of any of the reports listed in Item 9, other than the annual review of transitional assets.

60. Legacy investments are generally classified as:
   (a) Direct property investments.
   (b) Low Liquidity Assets.

61. The Trustees will over time reduce their participation in legacy investments in the following manner:
   (a) Each direct property investment will be reviewed regularly and not less frequently than 12 monthly. Property investments will be liquidated where the Trustees recognise a sufficiently favourable opportunity for exit.
   (b) Low Liquidity Assets held directly by the Trustees will be periodically assessed for a suitable redemption opportunity.
   (c) The Trustees currently hold bonds purchased as part of the operation of Anglican Funds Grafton Diocese (AFGD) which were purchased by the Trustees as part of the wind up of AFGD. These bonds will be held to maturity.
   (d) Funds released as a result of (a) to (c) inclusive above will be applied in accordance with the SAA.

62. Schedule 2 is current listing of legacy investments consistent with Item 60.

MINISTRY INVESTMENTS

63. With the primary purpose of the TFIP being to achieve a financial return, investing for specific ministry outcomes is discouraged because of the inevitable confusion and conflict between investment objectives and ministry objectives.

64. However, from time to time, ministry investments will be made but only where:

(a) The ministry expenditure is justified;
(b) There is no reasonable alternative to making the expenditure as part of the TFIP;
(c) Administration effort and costs are low;
(d) Risks have been evaluated and found to be acceptable;
(e) The beneficiaries of the TFIP are not significantly disadvantaged by this action;
(f) Any Ministry Unit utilising the investment asset is charged at market rates;
(g) Exposure to the investment is less than 5% of the TFIP.

65. Schedule 3 is a current listing of ministry investments.

SCHEDULE 1:

As at 1 June 2025, approved investments for the TFIP are:

- AXA IM Sustainable Equity Fund
- Continuity Capital Fund No. 5
- Continuity Capital Fund No. 7
- Milford Australian Absolute Growth Fund
- MLC Private Equity Co-investment Fund III
- Schroder Real Return Fund
- Perpetual Diversified Real Return Fund Class W

SCHEDULE 2:

As at 1 June 2025, the legacy investments are:

Investment Manager	Fund / Property
Barwon	Healthcare Property Fund
Charter Hall	Direct Office Fund
MPG Funds Management	MPG BW Rockhampton Trust
Clarence Property Diversified Fund	Westlawn Property Trust
Diocese of Grafton	50 Victoria St, Grafton
Diocese of Grafton	39 Victoria St, Grafton

SCHEDULE 3:

As at 1 July 2022, the ministry investments are:

Asset Class	Investment Manager	Fund/Property	Ministry Purpose
Property	Registrar	45 Riverdale Court, Grafton	Clergy housing
Unit trust	Anglican Funds South Australia	AFSA Endowment Fund	Security for parish loans