

Application	Board and Management
Purpose	To provide guidelines for the management of investment activities.
References	N/A
Associated policies/procedures	BPM-005 Board Financial Governance Policy
Associated forms	N/A

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## 1. Preamble

The Victorian AIDS Council (VAC) grew out of and works closely with those communities most affected by HIV in Victoria. It is constituted by two legally distinct incorporated associations - the Victorian AIDS Council and the Gay Men's Health Centre (GMHC) - which work together under the co-governance of a single Board of Directors (the Board) whose members are elected by the membership of each of the two organisations. The shared vision of the two organisations is: (1) a future without HIV, and (2) a world where all sexually and gender diverse people live with dignity, with equal rights, and participate fully in our society.

The mission of VAC/GMHC is to lead the fight against HIV/AIDS by providing care and support for people living with HIV, health promotion, and advocacy. We advocate with partner organisations to improve health outcomes for sexually and gender diverse communities. Our work is progressed by being a well-governed and financially secure organisation achieved by diversifying our sources of revenue and by taking advice on opportunities and risks with a view to securing a sustainable future and one which provides the capacity to be innovative in service provision.

The development and implementation of this Investment Policy is a continuation of the legacy of prudent investment management of past VAC/GMHC boards and its purpose is to provide a governance framework to guide the investment activities of VAC/GMHC. This policy acknowledges the criticality of having robust governance processes and practices for the management of VAC/GMHC's financial assets to secure the future financial stability VAC/GMHC and to ensure that it continues to conduct activities that work towards its vision and mission.

## 2. Definitions, Purpose and Scope

### 2.1 Definitions

In this document:

- '*Entities*' means the Victorians Aids Council ("VAC") and Gay Men's Health Centre ("GMHC");
- '*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;
- '*Investment Committee*' means the committee appointed by the Entities to oversee the Fund's investment Policy;
- '*Investment Policy*' means the Fund's investment objectives, guidelines and strategy as provided for in this document as amended from time to time;
- '*Net Earnings*' means net income after cost of administration, excluding realised and unrealised capital gains and including franking credits.

### 2.2 Purpose

The purpose of this Policy is to set out the Entities investment objectives and operational guidelines, and the roles and responsibilities of those who are involved in the management process.

### 2.3 Scope

This policy applies to the management of funds owned by the Entities.

### 3. Investment Guidelines

#### 3.1 General

All investment decisions should be made with the view of furthering the Entities ability to serve its beneficiaries and further the mission of the Entities. The Board recognises the mismanagement of investments could impact the entities financial position, operational capacity and reputation, and requires the appointment of an investment manager to provide independent and expert investment management services.

The investments of the entities funds are to be undertaken having regard to the uses of the funds (i.e. Categories 1, 2 and 3 as defined below), and in consideration of the liquidity and risk limitations specified in this Investment Policy.

- *Category 1. Short Term Working Capital Fund*
- *Category 2. Medium Term Strategic Investment Fund*
- *Category 3. Long Term Capital (Endowment Fund)*

At each FRAC Committee meeting the current balance for each category will be tabled, taking into consideration the cashflow forecasts for each category, along with any proposed strategic transfer of funds from one category to another, as determined and minuted by the Board.

Investments in the following asset classes are permitted (via both direct and managed investments), unless specified otherwise in sections 4-6.

- Cash deposits, cash management trusts/investments with Australian authorised deposit taking institutions rated A- and above with Standard and Poor's;
- Government, Financial and Corporate bonds and managed fixed interest products from issuers investment grade quality (rated BBB- and above with Standard and Poor's);
- Hybrid Securities from issuers investment grade quality (rated BBB- and above with Standard and Poor's);
- Listed Real Estate Investment Trusts (REITs);
- International and domestic equities;
- Alternative Investments; and
- Direct Property

Investments in the following asset classes are not-permitted (via both direct and managed investments), unless specified otherwise in sections 4-6.

- *Direct Options & Derivatives*
- *Unlisted Australian property trusts*
- *Unlisted private companies*
- *Unlisted Alternative assets, such as Securitisation of Mortgages or Hedge Funds*
- *Short selling of shares*
- *Purchasing under margin lending arrangements*
- *Warrants listed on ASX*
- *Directly held commodities*

To provide a framework which defines acceptable risk/return parameters for each category to meet the respective purpose, sections 4-6 set out risk limits, liquidity requirements, return objectives, allowable investments and target asset allocations for each category, which is summarised below:

	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>
<b>Risk Limit</b>	Low	Low - Medium	Medium - High
<b>Liquidity Required</b>	High	Medium	Low
<b>Minimum Investment Term</b>	Daily	6 Months	3 years
<b>Maximum Investment Term</b>	12 Months	5 Years	N/A
<b>Return Objective</b>	Average RBA cash rate	50% Bank Bill Index / 50% Composite Bond Index	CPI + 4-5% pa rolling over long term (5-10 years)
<b>Target Asset Allocation</b>			
Cash & Short Term Deposits	100%	10%	5%
Fixed Interest & Hybrid Securities	Not Permitted	90%	25%
Australian Equities	Not Permitted	0%	50%
International Equities	Not Permitted	0%	20%
Alternative Investments / Direct Property	Not Permitted	0%	0%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

### 3.2 Taxation

Investment income or capital gains are not subject to taxation and the Entities is able to obtain a rebate of franking credits on relevant dividend income. This should be recognised when selecting investment strategies.

### 3.3 Socially Responsible Investing (SRI)

Inline with its values, the VAC/GMHC has a preference for ethical investments. This policy seeks to ensure that SRI behaviors are maintained in the execution of the investment policy and strategy. In making investment decisions, the Entities will aim to ensure that it will not knowingly invest in an organisation that operates at the expense of 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 in organisations from the tobacco, alcohol or gambling industries;
- Direct investments in pharmaceutical companies must require approval from the Board; and
- For equity portfolios held through managed funds, the Entities will not knowingly invest in managed funds where: (1) more than 10% of the fund is exposed to companies from the tobacco, alcohol and gambling industries and/or (2) the fund owns a company on the prohibited companies list contained in appendix 1.

For investments in management funds, the Board acknowledges that it may not be possible for the Investment Committee to obtain lists of all underlying investments within a fund, and holdings of the fund can change regularly. Therefore, the Investment Committee will seek to avoid investments in managed funds where it is not able to easily discern that the fund breaches either of the above conditions (stipulated in point 3), or redeem that fund where it is brought to the Committee's attention that the fund has breached either condition as a result of change in investments.

The management of the Fund, including investment decisions, will be consistent with the above SRI position to the extent possible, while maintaining adequate diversification and liquidity as described in this policy. The Board will contribute to the ongoing implementation of this policy and will provide input to the debate on substantive SRI issues as they arise.

#### 4. Category 1 Fund

##### Purpose

The purpose of category 1 is to ensure sufficient liquidity via cash holdings and short term deposits for minor CAPEX, current leave provisions and to fund regular operational expenses.

##### Investment & Return Objective

The investment objectives of category 1 is preserve the capital contained within the fund and seek the maximum yield that can be achieved from cash and short term deposits within the allowable asset class (as below). The return objective of the fund is to achieve a return equal to or greater than the average RBA cash rate.

##### Liquidity

Liquidity for category 1 funds is paramount and management will ensure with forward planning that cash and maturity of term deposits are always sufficient to meet short term funding needs

##### Asset Allocation

The recommended long-term asset allocation for Category 1:

Asset Class	Target	Ranges
Cash & Short Term Deposits	100%	100%
Fixed Interest & Hybrid Securities	Not Permitted	Not Permitted
Australian Equities	Not Permitted	Not Permitted
International Equities	Not Permitted	Not Permitted
Alternative Investments	Not Permitted	Not Permitted
<b>Total</b>	<b>100%</b>	

#### 5. Category 2 Fund

##### Purpose

The purpose of category 2 is to enhance the yield on funds held in a risk measured manner over the medium term, whilst also ensuring sufficient liquidity to fund any significant strategic acquisitions or strategic projects.

##### Investment & Return Objective

The investment objective of category 2 is to protect downside risk (to a maximum of a net negative capital return of one in ten years) and at the same time seeking to achieve an acceptable level of yield relative to the risk and within the allowable asset classes listed below. The return objective of the category is to achieve a return in excess of 50% Bloomberg Bank Bill Index / 50 % Bloomberg Composite Bond Index.

##### Liquidity

It is recognised that funds held in Category 2 will not be required for day to day operations, and therefore these funds can be invested for a longer time duration, up to 5 years. However,

as the fund may be required for strategic acquisition of a major asset (e.g a property) and strategic projects (e.g. projects to diversify revenue streams), liquidity is required within six months for any such funding. The Investment Committee will determine at each meeting a strategic % or \$ amount of Category 2 that may be required for potential acquisitions, and inform the Investment Manager of the appropriate amount to ensure the maturity profile of investments meet that need. The recommended asset allocation and portfolio should consider forecast cash inflows and outflows, as tabled at each Investment Committee meeting.

### **Allowed Asset Classes**

Only investments in the following asset classes are permitted:

- Cash deposits, cash management trusts/investments with Australian authorised deposit taking institutions rated A- and above with Standard and Poor's;
- Government, Financial and Corporate bonds and managed fixed interest products from issuers investment grade quality (rated BBB- and above with Standard and Poor's);
- Hybrid Securities from issuers investment grade quality (rated BBB- and above with Standard and Poor's);

The recommended asset allocation for Category 2:

<b>Asset Class</b>	<b>Target</b>	<b>Ranges</b>
Cash & Short Term Deposits	10%	0% to 100%
Fixed Interest & Hybrid Securities	90%	0% to 100%
Australian Equities	0%	Not Permitted
International Equities	0%	Not Permitted
Alternative Investments	0%	Not Permitted
<b>Total</b>	<b>100%</b>	

The Board however acknowledges that the target allocations are subject to liquidity requirements for upcoming strategic acquisition opportunities, and as such may be varied with the Investment Manager where appropriate and necessary. The above targets reflect the medium term bias.

## **6. Category 3 Fund**

### **Purpose**

Category 3 funds are surplus to normal operational requirements and are have been set aside for long term investment, to grow funds and a perpetual income stream for the Entities. Category 3 may also be used in the future for broader fundraising initiatives to attract bequest and donations for longer term endowment purposes.

### **Investment & Return Objective**

The investment objective of Category 3 is to maintain and grow the real capital value of the fund over time via generating both capital and income returns.

Category 3 aims to earn a total rate of return after all costs of between 5-7% per annum over the medium – long term (5-10 years). In setting the return criteria, it is assumed the expected inflation in Australia will be between 2-3% per annum suggesting the Fund will be targeting a real return of 43-4% per annum.

## Liquidity

As Category 3 funds are surplus to normal operational requirements liquidity is less critical, however the Entities seeks to maintain an adequate level of cash to avoid the need to have to sell investments at valuations which are materially below market value.

## Diversification

Prudent asset class diversification should be employed to reduce the likelihood of the Fund generating negative returns. Appropriate diversification of asset allocation and individual Investment selection will be undertaken to reduce investment risk. Further to this no single investment shall exceed 10% of the portfolio at any time other than cash or bank term deposits.

## Distribution Policy

The annual distribution will be a set at two thirds of the Net Earnings of Category 3 for the prior year ending 30<sup>th</sup> of June. In any one year the Investment Committee can only alter the distribution rate with permission from the Board, which is to be minuted.

## Allowed Asset Classes

The recommended long-term asset allocation for Category 3:

Asset Class	Target	Ranges
Cash & Short Term Deposits	5%	0% to 100%
Fixed Interest & Hybrid Securities	25%	0% to 100%
Australian Equities	50%	0% to 70%
International Equities	20%	0% to 30%
Alternative Investments	-	0% to 10%
<b>Total</b>	<b>100%</b>	

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.

Where donations in the form of shares are received and added to the Investment Portfolio allocations outside the ranges will be allowed to remain until a suitable market time to re-balance the portfolio is presented.

## 7. Investment Manager

The Investment Committee may appoint an Investment Manager to, amongst other things, invest and manage the entities investments 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 funds according to this Policy.

The agreement may include that the Investment Manager or sub-custodian provides custodial services and in doing so holds the assets of the Fund as nominee for the Entities. However, under this agreement the beneficial ownership of the Fund's assets must remain with the Entities at all times. This includes a prohibition on the Investment Manager or sub-custodian lending out any stock held on behalf of the Entities.

In addition, the Investment Manager will:

- hold an appropriate Financial Services License;
- 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 Investment Policy;
- keep the Fund under review, including making full or partial realisation of or exit from 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 Manager's functions, powers and duties under the Policy; and
- advise the Investment Committee of any breaches of the Investment Policy and any material matters relating to the Investment Manager that in the opinion of the Investment Manager should be disclosed to the Investment Committee, within 5 business days.

### **7.1 Investment Manager Performance**

The performance of the investment manager 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;
- proactive approach to investment opportunities;
- value adding services;
- flexible, accurate and timely reporting; and
- investment performance;

Recognizing that short-term fluctuations may cause variations in performance, the Investment Committee intends to evaluate the Investment Manager's performance from a long-term perspective.

## **8. Reporting**

### **8.1 Performance Reporting**

A performance report for the Fund should be compiled by the investment manager and reviewed by the Investment Committee on a quarterly basis. The report should include:

- return for the Fund, expressed as a percentage;
- return on investment relative to the benchmark index for the overall Fund;
- return on investment relative to the investment objective as documents in section 3; and
- the percentage of exposure to each asset class relative to the benchmark allocation.

### **8.2 Performance Reporting**

The Investment Committee should prepare an annual report summarising current investment strategies, the Fund's performance, and any other relevant information.

## **9. 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 will be conducted by the Investment Committee in conjunction with the Investment Manager.

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



## **10. Policy Adoption**

The Policy adoption and amendments resulting from policy reviews must be signed off by the Board.