Policy 1.2: Investment

Policy Area: Donor Services			
Modification allowed:	No		
Other policies referred to:	Gift acceptance policy		
Approved by:	Board	Policy Number:	1.2
Approved date:	11/2020	Next review date:	11/2021

INTRODUCTION

Australian Communities Foundation ("ACF") investment policy sets the organisations investment beliefs, overarching investment purposes and objectives.

The Policy is designed to:

- clearly and transparently communicate ACF's investment principles and beliefs
- outline the responsibilities of the Trustee and investment advisors when making investment decisions
- describe how the Trustee formulates, implements, monitors and reviews the investment strategy.

AUSTRALIAN COMMUNITIES FOUNDATION

ACF is a public, independent, not-for-xprofit charitable foundation. Originally established in 1997 as the Melbourne Community Foundation, the Foundation is the oldest and largest community Foundation in Australia.

At ACF, we inspire and enable great philanthropy – the kind of giving that ignites positive social change and creates a fairer Australia. We're unapologetic believers in the power of collective effort which is why our community of donors is at the heart of everything we do. Our mission is to make giving accessible and easy by providing the tools, support and expertise people and organisations need to achieve their philanthropic goals.

We provide a range of services to individuals, families, corporates and not-for-profits;

- Donor Advised Funds (Subfunds)
- Private Ancillary Funds
- Investment Options
- Philanthropic Advice and Services
- Collective Giving
- Workplace Giving
- Support for Trusts and Foundations

Our Ethical Framework

Creating a Fairer Australia by Activating a Nation of Givers

We inspire giving

We are brokers of change

We recognise it takes courage to tackle our most pressing issues We believe people should have control over their lives

We are curious and we learn from others

We will walk away from opportunities that are not aligned to our values

We seek social, environmental and cultural justice and we put that change at the centre of everything we do.

1. Governance and Control

1.1 Australian Community Foundation Trust Funds

"The Trust Funds" are defined as the total funds operated by ACF, comprising pooled donations through Sub-Funds but operated and invested as three funds to grow and generate income for distribution.

The Australian Communities Foundation comprises three Trust Funds:

- Australian Communities Foundation Fund (Main)
- Australian Communities Foundation Extension Fund (Extension)
- Australian Communities Foundation Scholarship Fund (Scholarship)

The Main Fund and the Extension Fund are obliged to distribute 4% annually based on the net assets at the end of the previous financial year. The Scholarship Fund is not obliged to distribute annually as it is acceptable to accumulate income for scholarships.

As a not-for-profit charitable Public Ancillary Fund ("PuAF"), ACF is committed to keeping the costs of its operations contained and seeks to minimise the costs of its investment management functions consistent with achieving its other investment objectives.

1.2 Australian Communities Foundation Limited Board

The Trustee of the ACF is Australian Communities Foundation Limited a not-for-profit company limited by guarantee.

The Trustee company is governed by an honorary Board, the members of which bring expertise in a range of fields including investment management, business and finance, law and community development.

The Board is responsible for appointing ACF's investment adviser, based on a recommendation from the Finance, Risk, Audit & Investment Committee (FRAIC).

1.3 Conflict of Interest

On appointment, all directors are required to advise the Trustee of all other directorships, potential and present related party transactions and affiliations with professional and community associations. All Directors complete an annual, formal disclosure statement which is formally noted and recorded by the Board. On a continuous disclosure basis, all directors are required to advise the Chair of any changes.

Declaration of Conflict of Interest is a standard Board agenda item. Directors are required to declare any interest which arises and which presents a potential conflict of interest at the earliest opportunity, either to the Board Chair or to a Committee Chair. Subsequent involvement in the matter concerned is at the discretion of the Chair.

1.4 Finance, Risk, Audit & Investment Committee

The Trustee sets the investment policy and procedures and keeps these under constant review. To this end, FRAIC is responsible for:

- advising the Board regarding the design and execution of an asset allocation strategy;
- advising the Board on the investment policy, process and performance of the Funds; and
- considering any strategic directions in the area of investment and identifying their financial, legal, physical and human resource implications.

FRAIC comprises members with years of experience and skills in investment and finance. In addition to Australian Communities Foundation Board members, the committee includes independent members chosen for their finance and investment expertise and experience.

FRAIC has clear delegations from the Board and is responsible for overseeing the investment performance of ACF and for ensuring the investment guidelines and objectives are complied with.

The Board has appointed an external Investment Adviser under a service agreement, which reflects ACF's investment objectives and guidelines. The mandate sets out the delegations to act and the limitations imposed on the Investment Adviser.

FRAIC review the investment portfolios at least once a quarter, meeting with the Investment Adviser for a detailed review of investment performance and discussion of future direction and strategy.

FRAIC reports to the Board at every meeting, held quarterly.

1.5 Investment Decision Making

All decisions relating to ACF's investment of the Trust Fund are the legal responsibility of the Trustee through the Board. Day to day investment matters are dealt with by investment adviser with reference to FRAIC as required.

2. Asset Allocation

2.1 General

The majority of funds, except cash accounts for collective-giving flow-through Sub-funds, are placed under management with ACF's Investment Adviser. Cash accounts for collective-giving flow-through Sub-funds are held in an interest-bearing savings bank account maintained by ACF. In specie donations of assets other than cash are excluded from this Investment Policy (refer Gift Acceptance Policy).

All investments are held in the name of the Trustee via the investment adviser's custodian where the Trustee remains the beneficial owner of the assets.

2.2 Allowable Asset Classes

The following table outlines the allowable asset classes and respective performance benchmarks:

Australian Shares	S&P/ASX200 Accumulation Index
International Shares	MSCI World ex-Australia Index with Divs Reinvested 50% $A Hedged/50% Unhedged
Australian Listed Property	S&P/ASX200 Property Trusts Accumulation Index
Australian Direct Property	Mercer/IPD Pooled Property Trust Index
International Listed Property	FTSE EPRA/NAREIT Developed Index $A Hedged
Australian Govt Bonds	Bloomberg AusBond Composite 0+Yr
Australian Corporate Bonds/Hybrids	Bloomberg AustCorporate Bond Index
International Fixed Interest	Barclays Global Aggregate Index $A Hedged
Term Deposits/Cash	Bloomberg AusBond Bank Bill Index
Alternatives	Dow Jones Credit Suisse Hedge Fund Index

2.3 Strategic Asset Allocation

After considering the advice of its Investment Adviser, the Board of Australian Communities Foundation sets, and FRAIC regularly reviews, the strategic asset allocation for each investment strategy. The mix will vary over time in order to benefit from opportunities and protect against downside risks.

The long-term time horizons and tax-exempt status of ACF's investment profile prima facie suggest a greater exposure to growth assets (shares and property) and particularly Australian shares is indicated. However, as a donor-advised community foundation, we are mindful of donor's desire for sufficient returns to meet granting commitments, but also to ensure their donations/capital is preserved. This implies not only exposure to equities and growth assets, but also a material exposure to defensive assets such as fixed interest and cash.

The expected return and risk from the strategic asset allocations are based on professional advice from Australian Communities Foundation's Investment Adviser and are designed to provide a benchmark and realistic expectations.

The ranges set out the limits within which the portfolio asset mixes may vary from the strategic asset allocation setting the allowable tactical investment ranges for each portfolio.

2.4 Risk

Australian Communities Foundation requires high levels of diversification of investments to reduce the impact of market risk, interest rate risk, inflation risk and currency risk. It also requires annual review of the Strategic Asset Allocation to be reset if business/economic conditions demand.

Diversification is required across asset classes as well as within asset classes.

Portfolio Construction Guidelines are also provided below to manage concentration and liquidity risk and underpin diversification.

2.5 ACF Investment strategies:

1. Core Investment Strategy

Objective	To generate total returns (after all fees) sufficient for meeting minimum distribution requirements and a modest capital growth of the corpus
Performance objective	CPI plus 3.9 % over rolling 7-year period
Expected return (before fees)	6.8%
Estimated frequency of loss	1 year in every 6 years
Historic worst return (last 10 years)	-16.0% (February 2009)

Strategic Asset Allocation:

Asset Class	60/40 Strategic Asset Allocation	Proposed Ranges
Growth		
Australian Shares	40%	25 – 50%
International Shares	20%	10 – 35%
Unlisted Australian Property	0%	0 – 10%
Alternative Assets	0%	0 – 10%
	60%	**60%**
Defensive		
Aust Govt Bonds	5%	0 - 30%
Australian Corp Bonds	15%	0 – 20%
International Bonds	0%	0 - 10%
Aust Hybrids	10%	0 – 10%
Term Deposits	5%	0 – 20%
Alternative Assets	0%	0 – 10%
Cash	5%	0 – 30%
	40%	**40%**

2. Defensive investment strategy

Objective	Designed primarily for sub-funds: That wish to grant capital as well as income within a short time horizon

	Flow-through giving programs (e.g. workplace giving programs, Impact100)
Performance objective	Bloomberg AusBond Bank Bill Index + 1%
Expected return (before fees)	3.4% pa
Estimated frequency of loss	nil
Historic worst return (last 10 years)	0.8% (March 2016)

Strategic Asset Allocation:

Asset Class	15/85 Strategic Asset Allocation	Proposed Ranges
Growth		
Australian Shares	10%	5 - 15%
International Shares	5%	0 – 10%
	15%	**15%**
Defensive		
Aust Govt Bonds	5%	0 - 30%
Australian Corp Bonds	5%	0 – 25%
International Bonds	5%	0 - 10%
Aust Hybrids	5%	0 – 20%
Term Deposits	55%	0 – 80%
Cash	10%	5 – 30%
	85%	**85%**

This investment option is not available within the Extension or Scholarship Funds. Donors within the Core Fund can switch between investment options once per annum.

2.6 Rebalancing

The Investment Adviser has discretion to rebalance the portfolios as required and/or as deemed appropriate and reports rebalancing activity to FRAIC each quarter. The Investment Adviser has no discretion to allow the portfolio asset allocation to move outside the allowable ranges.

3. Portfolio Construction

The following portfolio construction constraints will apply:

Simplicity and Cost Effectiveness	Where possible, the Trustee wishes to neutralise the additional cost of active fund managers by the use of low-cost/index products and by simplification of the portfolio to no more than 12 managed products.
Passive v Active Investing	The Trustee seeks a balance between passive and active investing that ensures: a) Maximises the total returns of the portfolio b) A portfolio that is cost-effective c) Provides simplicity d) ACF's responsible investment guidelines are adhered to
Direct v Managed Investing	In the equities and property asset class, ACF's preference is to invest via managed products.
Hedged v Unhedged	Strategic neutral international share hedging is to be 50% -variations permitted with ACF approval.

Concentration Risk	No single fund manager exposure to exceed 25% of the investment portfolios. No single fund exposure to exceed 10% of the investment portfolios. Look through exposure to small caps to be limited to 20% of the overall exposure to shares.
Liquidity	Needs to be managed to ensure that sufficient cash is available to meeting granting requirements given a 2-day notice period
Unlisted Aust Property	Funds to hold more than 10 assets diversified by geography, property subsector (office, retail, industrial etc.) and WALE (weighted average lease expiry.)
Fixed Interest	Unlisted corporate bonds not to exceed 50% of the fixed interest asset class. 12-month annuities not to exceed 20% of the fixed interest asset class. Quarterly reporting of duration, credit rating, yield to maturity, blend of fixed and floating rates required.
Hybrids/Corporate Bonds	Issuer and/or issue to be of investment grade credit quality (investment grade ratings ranging from AAA down to BBB- as defined by Standard & Poors). No single hybrid or corporate bond to exceed 2.5% of total portfolio. Hybrids must not represent >50% of the total fixed interest allocation.
Term Deposits	Term Deposits with AA- or higher rated ADIs may exceed $250,000. Term Deposits with less than AA- rating to be limited to $250,000. No durations greater than 360 days allowed. Durations greater than 270 days not to exceed 25% of TD assets. Durations greater than 180 days not to exceed 50% of TD assets. Durations greater than 90 days not to exceed 75% of TD assets.
Derivatives	The use of derivatives is limited to: • Stock covered written calls to generate additional income • Cash covered written puts to generate income • Long puts to protect equity downside risk including SPI collar protection • Derivatives used within external funds The use of derivatives for gearing purposes is not permitted. Structured products that contain derivatives may be permitted (subject to prior approval from FRAIC).

4. Responsible Investment

4.1 Preamble

Responsible investment is a fundamental investment belief ACF considers necessary to deliver returns in accordance with the investment strategy objectives. In accordance with the growing body of research, we believe that Environmental, Social and Governance (“ESG”) management by fund managers and companies in which we invest will reduce risk and improve long-term returns, while poor ESG management will increase risks and reduce long-term returns.

As such, the consideration of ESG risks and opportunities in ACF’s investment processes and decision making is consistent with maximising long-term investment returns while minimising risk. ACF believes that this approach will have the ancillary benefit of contributing to improved environmental and social outcomes, which will in turn:

- contribute to a stronger, fairer and more sustainable world
- improve the overall returns of the portfolio
- increase alignment with the values of the broader ACF Community

4.2 Principles for Responsible Investment

ACF is guided by the United Nations-backed Principles for Responsible Investment (“PRI”). The

principles require:

1. Incorporate ESG issues into investment analysis and decision-making processes
2. Be active owners and incorporate ESG issues into our ownership policies and practices
3. Seek appropriate disclosure on ESG issues by the entities in which we invest
4. Promote acceptance and implementation of the Principles within the investment industry
5. Work together to enhance our effectiveness in implementing the Principles
6. Report on our activities and progress towards implementing the Principles

4.3 Implementation

Responsible investment is a significant component of the investment manager selection and appointment process. The Trustee prefers investment managers that have sound ESG practices and will seek to invest using both negative and positive screens. The Trustee will not invest in in companies with negative ESG outcomes.

ACF will include analysis of relevant ESG considerations across its investment decision making processes. Due diligence of all new third-party investment managers will include in-depth analysis of ESG risks and opportunities. Investments will be monitored periodically to systematically capture ESG related activities that investment managers have undertaken in researching or considering ESG themes through their portfolios. Selected managers must be able to provide a look-through to all underlying holdings.

As a minimum, it is expected that fund managers are United Nations Principles for Responsible Investment ("UNPRI") signatories and/or Responsible Investment Association Australasia ("RIAA") members.

ACF's Investment advisor and FRAIC are jointly responsible for ensuring that external investment managers are aligned with our commitment to responsible investment and are appropriately incorporating ESG issues into the selection and management of investments and for otherwise implementing responsible investment, as relevant to each asset class.

4.4 Positive screening & Impact Investing

Impact investing is an approach that intentionally seeks to create positive social and environmental impacts alongside financial returns. They generally support objectives that are aligned with the organisational vision of an investor. Areas or themes of impact are Climate Change, Energy, Water, Community Development, Social Enterprise, Health and Wellness, Education and Sustainable Development.

ACF seeks to progressively increase its exposure to positively screened investments (including impact investments) to at least 50% of the total portfolio over the next 1-3 years where these investments meet the required investment criteria

It is the responsibility of the investment advisor to report to ACF on the positive social and environmental outcomes of these investments on an ongoing basis.

4.5 DivestInvest

In September 2018, ACF pledged its full commitment to DivestInvest. As a result, ACF has committed to the following:

- Make no new investments in oil, gas, and coal companies.
- Sell existing investments tied to these oil, gas, and coal investments within 3-5 years.
- Invest in climate solutions, such as renewable energy, energy efficiency, sustainable agriculture, water efficiency and more.

All investment decisions should be reviewed in accordance with above commitment. In addition, the investment advisor should review the portfolio at least annually to ensure that existing investments continue to meet the DivestInvest criteria and report back to FRAIC accordingly.

5. Investment Selection

Selection of individual products and securities is ultimately the decision of the FRAIC Committee. Unless discretion is otherwise agreed, all investment recommendations are to be submitted in writing to the FRAIC committee and formally approved prior to execution.

6. Investment Reporting

For each investment portfolio, the Investment Adviser will provide quarterly reports to FRAIC that include:

- Asset allocation at end of quarter

- Portfolio valuation at end of quarter
- Purchases and sales throughout quarter
- Income and expenses throughout quarter
- Fund performance versus objective, target and benchmark over all time periods
- Investment adviser costs at end of year
- MER costs at end of year
- Performance attribution
- Investment Policy compliance
- Quarterly Single Page Donor Summary
- Supporting commentary and outlook

7. Investment Adviser

The Investment Adviser is accountable for compliance with the asset allocation and portfolio construction constraints of this Investment Policy and for the performance of the recommended products and securities.

The Investment Adviser is to be appointed for a contract period of three years. At the expiration of the three year contract FRAIC may recommend to the Board to seek expressions of interest via selective tender or that the incumbent Investment Adviser be reappointed for a further period of up to three years without tender, but after review of the terms and conditions of re-appointment.

At the expiry of six years FRAIC must re-tender the role though the incumbent is not prohibited from expressing their interest to retain the role for further contract periods.

If deemed appropriate, multiple advisors can be appointed for the purpose of the managing the investment portfolio. An agreement between the different stakeholders should be entered to ensure transparency for how the entirety of the portfolio should be managed.