

## Sydney Community Foundation

### Investment policy

#### Overview

SCF is Trustee of all funds established to receive money and assets donated from the public. The Board of the SCF is ultimately responsible for the prudent management of all SCF funds. The Board has appointed an Investment Committee of three directors to assist it to fulfil its fiduciary obligations under the SCF umbrella.

The SCF aims to manage all funds prudently, in accordance with sound investment principles, so as to optimise the return generated on funds invested, while maintaining a prudent investment risk profile.

In addition to meeting the fiduciary responsibilities, this investment policy:

- Demonstrates to individual and corporate donors and benefactors that the SCF is a competent steward of money it receives.
- Defines the criteria against which the committee can evaluate investment performance relative to accepted market indices.
- Provides a roadmap for new Board members and/or committee members to ensure continuity of effective management within the SCF.

The money and assets donated by the public are used in three distinct ways:

- **Flow through** - donations are allocated to selected charities within a short time frame, ie. less than 12 months
- **Administration** - grants and fees are employed to ensure the continuing, efficient operation of SCF. Again such funds are used within 12 months.
- **Endowment** – donations are invested to preserve capital for the future and income earned from the investment of this capital is allocated to selected charities.

Accordingly the investment policy will address two distinctly different investment time frames; short term for “flow through” and “administration” funds and long term for “endowment” funds.

## Objectives

An appropriate investment policy will assist with the achievement of several key objectives, which include:

- Return
- Risk
- Liquidity, or access to capital
- Ethical investments

## Procedures

### Flow through and administration funds

#### ***a) Satisfactory return***

Given the short term investment time horizon of capital allocated for “flow through” and “administration”, the investment objective should be to achieve a satisfactory return commensurate with the 90 day Bank Bill Index.

#### ***b) Acceptable risk profile***

To limit investment risk, investments should only be invested in investments with an **AA credit** rating or better.

### Endowment funds

#### ***a) Return***

With a long term investment time horizon, the objective for “endowment” funds should be to achieve a return above inflation so that the capital will grow in “real” terms.

It is proposed that the target “long term” return should be inflation plus 4%.

#### ***b) Risk***

It is noted, that to increase potential return, an investment portfolio must assume a higher level of volatility (fluctuations in capital) in the short term.

It is also noted that, the “risk” associated with lower volatility gives rise to a reduced probability of capital loss in the short term, but, equally, a greater probability of capital loss in the long term.

Hence, it is acceptable for the portfolio to achieve a negative return for one in five years.

#### ***c) Liquidity***

As funds are to be invested for the long term, there is no need for a high level of liquidity.

**d) Asset allocation**

Research confirms the inability of forecasts to predict how investment markets will perform in the future.

Furthermore, the major determinant of long term performance for an investment portfolio is not the selection of investments, nor the timing of acquisition of investments, but rather the mix of asset classes, known as asset allocation. This contributes to over 90% of performance.

The table below details the target, long term asset allocation for endowment funds:

<b>Asset Sector</b>	<b>Target Allocation %</b>	<b>Variance %</b>
Cash	5	+ / - 10
Fixed interest	25	+ / - 15
Australian shares	35	+ / - 15
International shares	15	+ 10
Property	15	+ 10
Other	5	+ 5

**Investment strategy guidelines****Constraints**

In concert with the target asset allocation, the following guidelines are recommended to reduce risk once the portfolio value exceeds \$1M:

- Maximum of 20% in any one investment
- Maximum of 30% in any one investment manager
- Strong focus on ethical investment
- Not less than two active investments per major asset sector
- Maximum of 15% of the portfolio in illiquid investments
- No speculative, or high risk, investments
- No borrowing to amplify capital growth

### ***Implementation***

To reduce the risks associated with portfolio establishment, it may be prudent to implement the target asset allocation over an extended time period through tranching, or dollar cost averaging.

### **Investment types**

#### ***Flow through and administration funds***

Capital allocated for “flow through” and “administration” can be invested in bank deposits, cash management trusts and short term fixed interest securities with AA risk rating.

#### ***Endowment funds***

Capital allocated for “endowment” can be invested in any publicly available managed investment.

### **Investment management**

The investment committee can elect to appoint an external investment manager to assist with asset allocation, investment selection and ongoing reporting.

Priority should be given to seeking external advice on a fee for service basis as well as maintaining a diversification of investment managers, particularly once capital exceeds \$1M.

### **Review of investment performance**

The performance of capital allocated to “endowment” shall be reviewed at least annually, and then on six monthly intervals once capital exceeds \$1M.

The performance of endowment capital will be measured against the average performance of wholesale managers for a “balanced” asset allocation according to the Morningstar published ratings.

Once an external manager is appointed, their written report will be submitted to the investment committee on a six monthly basis.