



**MONASH STUDENT ASSOCIATION (CLAYTON) INC.**

**INVESTMENT POLICY**  
**VERSION 1.2**

**JANUARY 2017**



<b>TABLE OF CONTENTS</b>		
<b>SECTION</b>	<b>CONTENT</b>	<b>PAGE REFERENCE</b>
<b>1</b>	Background and Scope	5
<b>2</b>	Investment Objectives	6
<b>3</b>	Risk Profile	6
<b>4</b>	Investment Strategy	7
<b>5</b>	Return Objectives and Performance Benchmarking	8
<b>6</b>	Responsible Investment	9
<b>7</b>	Risk Management	9
<b>8</b>	Reporting	11
<b>9</b>	Decision Making Processes	11

## DEFINITIONS AND ACRONYMS

TERM	DEFINITION
<b>ADI</b>	Authorised Deposit Taking Institution
<b>AUSTRALIAN DOMICILED MANAGED FUND</b>	A managed fund operating under Australian regulations, valued in Australian currency that provides an annual tax statement for Australian tax purposes
<b>ASSOCIATION</b>	Monash Student Association (Clayton) Inc.
<b>APRA</b>	Australian Prudential Regulation Authority
<b>COUNCIL</b>	Monash Student Council
<b>CPI</b>	The % change in the Consumer Price Index (Headline) as published quarterly by the Australian Bureau of Statistics
<b>EO</b>	MSA Executive Officer
<b>FIRST TIER BANK</b>	An Australian ADI (or a wholly owned subsidiary thereof) which carries the highest level of credit rating currently issued within the banking sector
<b>LONG TERM INVESTMENT POOL</b>	At most \$3.5M or 60% of the portfolio, whichever is higher, to be invested in assets which have the potential to grow in capital value in accordance with the Investment Policy objectives
<b>INDEPENDENT ADVICE</b>	Advice that is provided by an advisor that has no commercial ties to providers of financial products
<b>MONASH</b>	Monash University (Melbourne, Australia)
<b>MSA</b>	Monash Student Association (Clayton) Inc.
<b>MSC</b>	Monash Student Council
<b>NON-DISCRETIONARY</b>	An investment management arrangement whereby the advisor does not have discretion to implement investment transactions without the permission of the client (ie. each transaction must be separately approved by the client)
<b>S&amp;P</b>	Standard & Poor's
<b>SFO</b>	MSA Senior Finance Officer
<b>SHORT TERM INVESTMENT POOL</b>	At least \$250,000 or 30% of the portfolio, whichever is higher, to be invested in highly liquid cash investments within first-tier ADIs
<b>SSAF</b>	Student Services and Amenities Fee
<b>UNIVERSITY</b>	Monash University (Melbourne, Australia)
<b>MSA EXECUTIVE</b>	Consists of a student elected body comprised of the MSA President, Treasurer and Secretary
<b>F&amp;AR COMMITTEE</b>	Finance & Audit Risk Committee; consists of the MSA Executive Officer, Senior Finance Officer and MSA Executive

# MONASH STUDENT ASSOCIATION (CLAYTON) INC.

## INVESTMENT POLICY

### SECTION 1 – BACKGROUND AND SCOPE

Currently MSA is funded through a compulsory fee collected and distributed by the University known as the Student Services and Amenities Fee (SSAF), this amount is adjusted each year in-accordance with CPI.

In combination with a constantly increasing expenditure and given the current low inflation and ultra-low interest rate environment, the maintenance of reasonable returns through a traditional strategy (eg. term deposits) and a breakeven budget has become a progressively difficult task. As a result, MSA is seeking opportunities in all areas to maximise returns in a manner that is consistent with the core beliefs below. Guided by the vision and mission to improve student experiences, whilst taking into consideration a set of responsible investing parameters that include Environmental, Social & Governance (ESG) factors MSA will carefully consider options in managing the Investment Portfolio to achieve the objectives.

To avoid full exposure of falling cash rates, diversify risk and enhance the return potential, MSA is seeking to diversify the investment portfolio. In order to do this, MSA will engage a professional advisor to assist in management of the investment portfolio.

As part of the investment strategy, MSA incorporates its core beliefs of:

- Representation – social justice, advocacy and student support
- Respect – humility, strength and empathy
- Ethical Actions – integrity, transparency, human rights and democracy
- Learning – mentoring, quality education, training and development
- Sustainability – financial, environmental, cultural
- Community Engagement – opportunity, volunteering, student unionism, activism

### VISION STATEMENT

MSA – A better student experience.

### MISSION STATEMENT

MSA is a student led organisation that represents students and supports the Clayton campus community  
We are a trusted leader in student engagement and experience

The scope of this policy is the documentation of the guidelines for the investment and management of the MSA Investment Portfolio including the roles and responsibilities of the parties involved. This policy applies to the Investment Committee and any Investment Advisor/Consultant appointed to provide advice and/or manage funds on behalf of MSA.

## SECTION 2 – INVESTMENT OBJECTIVES

The Objective of the MSA Investment Portfolio is to ethically maximise the rate of return within a specified level of risk to provide a source of funding for Association expenditure into the future in a secured and diversified manner.

### LONG TERM INVESTMENT POOL

The Long Term Investment Pool is viewed as an investment in perpetuity, which aims to grow its real income generating ability so as to allow the Association to continue to uphold its constitution into the future.

#### *The investment objectives for the Long Term Investment Pool are:*

1. Target an investment return, after costs and taxes, of at least CPI (Headline) + 2.0% per annum on average over a rolling period of ten years; and
2. Have a probability of a negative annual investment return limited to on average, once in five years.

### SHORT TERM INVESTMENT POOL

The Short Term Investment Pool is viewed as a liquidity and capital preservation vehicle, which aims to generate a moderate return in a low risk manner.

#### *The investment objectives for the Short Term Investment Pool are:*

1. Provision of sufficient immediate (within 31 days) liquidity to meet the Association's cash flow requirements throughout the year;
2. Have a negligible probability of a negative return in any one year; and
3. To provide investment returns, after costs and taxes in excess of the Bloomberg Australian Bank Bill Index.

## SECTION 3 – RISK PROFILE

As a not-for-profit representative body for Monash University Clayton students, the Monash Student Association holds a moderately conservative approach to investment. The Association is prepared to establish a diversified portfolio to partially protect from inflation risks; it seeks to protect its capital and in an ethical manner seeks to generate moderate returns.

MSA understands that some levels of risk is required in order to achieve the stated objectives. MSA accepts that there is a probability of a negative investment return as outlined in Section 2.

## SECTION 4 – INVESTMENT STRATEGY

### 4.1 STRATEGIC ASSET ALLOCATION

The portfolio is to be constructed and maintained in accordance with the following Strategic Asset Allocation metrics:

#### 4.1.1 Short Term Investment Pool Asset Allocation

ASSET CLASS	BENCHMARK	RANGE
Cash	100%	100%
<b>TOTAL INCOME ASSETS</b>	<b>100%</b>	

#### 4.1.2 Long Term Investment Pool Asset Allocation

ASSET CLASS	BENCHMARK	RANGE
Cash	5%	0% - 100%
Australian Fixed Interest, Hybrids & Bonds	35%	0% - 50%
International Fixed Interest, Hybrids & Bonds	15%	0% - 20%
<b>TOTAL INCOME ASSETS</b>	<b>50%</b>	
Australian Equity	25%	0% - 35%
International Equity	20%	0% - 30%
Alternatives	5%	0% - 10%
<b>TOTAL GROWTH ASSETS</b>	<b>50%</b>	

### 4.2 STRATEGIC ASSET ALLOCATION REVIEW PROCESS

A review of the Strategic Asset Allocation benchmarks and ranges of both portfolios is to be conducted on an annual basis by the Investment Advisor for presentation to the Finance & Audit Risk Committee and should include:

- Consideration of risk profile and objectives; and
- Modelling of the expected risk and return metrics of several scenarios that may be expected to enhance portfolio return.

### 4.3 REBALANCING POLICY

The portfolio is to be reviewed and rebalanced on a quarterly basis with the assistance of the Investment Advisor to ensure that it remains within the allowable Strategic Asset Allocation ranges. Rebalancing will be relevant, in particular, where excess funds have accumulated in the operating bank account.

#### 4.4 ALLOWABLE INVESTMENTS

In order to be allowed in the portfolio, an investment must comply with the Responsible Investing Policy (Section 6 below). The following requirements also apply to the various asset classes:

##### CASH

- Deposit accounts with any Australian Authorised Deposit-Taking Institution. Deposits on an overall aggregated basis are to remain within the following limits:
  - Exposure to a first tier bank is unlimited
  - Exposure to any other bank is limited to the amount guaranteed by the Australian Government

##### FIXED INTEREST

- Income securities, including bonds, subordinated notes, hybrid securities (including convertible notes and preference shares) listed on the Australian Stock Exchange.
- Australian domiciled managed funds that invest predominantly in listed or unlisted Australian and International corporate and government bonds or income securities.

##### AUSTRALIAN EQUITY

- Australian domiciled managed funds (including Exchange Traded Funds and Listed Investment Companies) that predominantly comprise securities listed within the S&P/ASX300 Index.

##### INTERNATIONAL EQUITY

- Australian domiciled managed funds (including Exchange Traded Funds and Listed Investment Companies) that predominantly comprise securities listed on the major global stock exchanges.

##### ALTERNATIVES

- Australian domiciled managed funds which have broad diversification in underlying investments and are expected to provide correlation benefits in order to reduce volatility in the overall growth asset exposure portion of the portfolio.

#### SECTION 5 – RETURN OBJECTIVES AND PERFORMANCE BENCHMARKING

The return objective is to achieve, after fund manager fees and over rolling twelve-month periods, performance at or above benchmark in each asset class and the overall portfolio. The relevant benchmarks are set out below:

ASSET CLASS	BENCHMARK
Cash	Bloomberg Australian Bank Bill Index (Accumulation Index)
Australian Fixed Interest	Bloomberg Australian Composite Bond Index (All Maturities)
Australian Equity	S&P/ASX 300 Index
International Equity	MSCI World Ex Australia NR AUD (50% Hedged 50% Unhedged)
Alternatives	Credit Suisse Hedge Fund Index
Total Portfolio	Based on the strategic asset allocation; a weighted average of the benchmarks indicated above.

## SECTION 6 – RESPONSIBLE INVESTMENT

Given the nature of the Association, MSA has an inherent desire to ensure that investments are ethical and sustainable, with a particular focus on environmental, social and governance issues. MSA will utilise a mixture of negative and positive screening measures in order to endeavour to avoid material exposure to issues that it sees as negative and gain exposure to initiatives that it sees as positive.

- Negative Screening refers to the process of limiting investments that contain activities that are inconsistent with MSA’s investment beliefs.
- Positive Screening refers to the process of actively seeking investments that have a greater level of activity consistent with MSA’s investment beliefs

### NEGATIVE & POSITIVE SCREENING GUIDELINES

NEGATIVE	POSITIVE
Gambling, Alcohol, Armaments, Human Rights Violation, Lending Practices, Environmental Damage, Uranium, Shale/Coal Seam, Gas/Thermal Coal, Child Labour, Animal Welfare Violation, Pornography, Adult Services, Old Growth Forestry	Renewable Energy, Energy Efficiency, Mass Public Transport, Sustainable Agriculture, Public Housing, Gender Equality on Board of Directors

## SECTION 7 – RISK MANAGEMENT

The key investment risks and the broad strategies to manage these risks are set out below:

RISK	DESCRIPTION	RISK MANAGEMENT STRATEGY
<b>INTEREST RATE RISK</b>	The change in asset values due to a change in market interest rates.	This risk can be managed by actively monitoring and adjusting the duration profile of all investments, particularly Cash and Fixed Interest investments.
<b>INFLATION RISK</b>	The change in asset values due to changes in price levels	As inflation risk is highly related to interest rate risk this can be managed in the same way as above.
<b>CURRENCY RISK</b>	The change in asset values due to a change in the level of currency exchange rates	This risk can be managed by actively monitoring and adjusting the currency exposure and hedging levels of any foreign investments (or domestic investments that have foreign exposures).
<b>EQUITY RISK</b>	The change in asset values due to movements in share prices	Actively manage and diversify the exposure to shares, as well as any hybrid securities that include equity exposure (ie. convertible preference shares).
<b>PROPERTY RISK</b>	The change in asset values due to movements in property unit prices.	Actively manage and diversify any property exposure.
<b>CREDIT RISK</b>	The change in bond prices due to perceived or actual changes in the issuer’s ability to meet future interest or capital repayments.	Limit bond and hybrid securities exposure to those issued by Investment Grade entities where possible. The deposit limits set out in Section 4.4 are also aimed at managing credit risk.

<b>DEFAULT / CONCENTRATION RISK</b>	Loss occurring due to an adverse event impacting a counterparty to which there is a substantial exposure.	Manage by diversifying investment exposure amongst a broad range of counterparties.
<b>LIQUIDITY RISK</b>	The inability to access invested funds in order to meet expenses and/or liabilities as they fall due.	Invest predominantly in assets with a high level of liquidity (i.e within 31 days). For any direct term deposits, split the deposits such that maturities are frequent. Investments should also be diversified between several managed funds and fund managers to limit the risk of fund managers freezing their funds. Refer to Short Term & Long Term Investment definitions.
<b>MANAGER RISK</b>	The risk of underperformance by a fund manager.	Diversify funds between fund managers and continually assess manager performance against relevant benchmarks.
<b>GEARING RISK</b>	Increased potential for change in value resulting from the use of debt.	Avoid any direct borrowing or investments in any product that allows gearing in any form (borrowing or derivatives).
<b>DERIVATIVE RISK</b>	The risk of loss resulting from the use of derivative products.	MSA should not invest directly in derivatives contracts and such exposures should only be held via experienced fund managers and generally for the purpose of risk management and liquidity management. Derivatives must not be used to create leverage in any investment or the portfolio. Any potential losses or obligations arises from derivatives exposures must be covered by cash held by the relevant fund managers in order to avoid any counterparty liabilities.
<b>MARKET TIMING RISK</b>	The risk of buying or selling an investment at an inopportune time in the market cycle.	Implement investment recommendations on a staged basis to spread risk over a broader time horizon.

## SECTION 8 – REPORTING

The Investment Advisor will provide:

Online viewing access to a suite of portfolio reports including:

- Performance
- Valuation
- Asset Allocation
- Performance
- Income and Expense
- Purchases and Sales
- Cash Transactions

A comprehensive quarterly report, including:

- The above reports – reconciled
- Investment markets performance (Benchmarks)
- Bank Statements

The MSA Finance & Audit Risk Committee will report the outcomes from the documents provided by the Investment Advisor to the Council quarterly. The Investment Advisor may also be required to present the investment portfolio to council.

## SECTION 9 – DECISION MAKING PROCESSES

### 9.1 ROLES AND RESPONSIBILITIES

This section describes the roles and responsibilities of various parties in relation to the development, approval, implementation, monitoring, reporting and review of the Investment Policy.

#### ***9.1.1 Monash Student Council***

As part of its responsibility for fund management within MSA as per the constitution, the Council is ultimately responsible for the approval of the Investment Policy and investment management decisions as recommended to it by the Finance & Audit Risk Committee.

#### ***9.1.2 Finance & Audit Risk Committee***

The roles undertaken by the Finance & Audit Risk Committee on behalf of Council, in relation to investment management are set out below:

- To provide oversight of MSA's Investment Portfolio;
- To develop, review and recommend the creation and revision of MSA's Investment Policy;
- To assess MSA's risk and return profile and approve investment strategies in order to meet the approved investment objectives;
- To evaluate and recommend for approval investment decisions based on advice from the appointed Investment Advisor;
- To monitor investment performance against the Investment Policy and report on these to Council; and
- To assess and recommend to Council the appointment and termination of the Independent Investment Advisor.

### **9.1.3 Management**

The Senior Finance Officer is responsible for the following:

- Development and implementation of systems and processes that ensure a prudent approach to investment management practices within MSA;
- Implementation of the decisions of the Finance & Audit Risk Committee;
- Investment of surplus operating funds, subject to the provisions of this Investment Policy;
- Redemption of funds invested in Investment Portfolio to the extent necessary to meet MSA's liquidity requirements;
- Regular review of the Investment Policy and recommendation of amendments where necessary.

### **9.1.4 Investment Advisor**

In accordance with MSA requirements the Investment Advisor will:

- Provide Independent advice and recommendations in relation to the Strategic Asset Allocation for the Investment Portfolio;
- Provide Independent advice and recommendations on suitable investment products for the Investment Portfolio;
- Implement and administer the agreed investments of the Investment Portfolio under a non-discretionary arrangement;
- Review and monitor the agreed investments of the Investment Portfolio; and
- Periodically report on the Investment Portfolio in the agreed format.

## **9.2 MEETINGS/QUORUM**

The quorum is 4 (four) members of the Finance & Audit Risk Committee.

## **9.3 AUTHORISED SIGNATORIES**

The signatories for authorising approved investment transactions (deposits and redemptions) are set out as below:

- Category A – SFO, EO
- Category B – MSA Executive

A combination of one signatory from each category is required to sign any authority to proceed or instruction to make or redeem investments on behalf of MSA in accordance with MSA's Investment Policy.

## **9.4 APPROVAL PROCESS**

Recommendations from the Investment Advisor of the nature below **must** be presented to the Council, prior to implementation by MSA Authorised Signatories:

- Changes to the Investment Policy – including the Strategic Asset Allocation.

Recommendations from the Investment Advisor provided for the following purposes may be approved and implemented by MSA Authorised Signatories:

- Management of surplus operating funds, including term deposits and at-call accounts.
- Rebalancing of funds in accordance with the Strategic Asset Allocation parameters.