



ROYAL ZOOLOGICAL SOCIETY OF NEW SOUTH WALES

ABN: 000 007 518

INVESTMENT POLICY STATEMENT

July 2015

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1. DEFINITIONS AND PURPOSE

1.1 Definitions

In this document:

- **'RZS NSW'** means Royal Zoological Society Of New South Wales, ABN 000007518;
- **'Fund'** means the investment portfolio consisting of the RZS NSW's investable assets;
- **'Financial Year'** means a one year period ending 30 June;
- **'Investment Adviser'** 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 RZS NSW to oversee the Fund's investment Mandate. The Investment Committee should comprise, as a minimum, the Honorary Treasurer of RZS NSW, the President of RZS NSW and one other Councillor appointed by the full Council of the Society;
- **'Investment Mandate'** means the Fund's investment objectives, guidelines and strategy as provided for in the Policy; and
- **'Policy'** means this document as amended from time to time.

1.2 Purpose of this Investment Policy Statement (IPS)

The purpose of this IPS is to set out the Fund's:

- **Alignment of the portfolio to the needs of the RZS NSW** – The investment portfolio is designed having consideration for the income and capital objectives of the organisation. The portfolio is to exhibit the characteristics and attributes required to deliver on the stated income and capital objectives.
- **Corporate Governance** – As an organisation we believe in strong corporate governance. This policy confirms a robust and considered investment policy for the organisation. It also articulates the authorities and responsibilities within the chain of processes. This reduces risk within the business and provides confidence for our members.
- **Evidence of Prudence** – A policy paper trail that demonstrates our organisation's 'prudent' investment management principles and processes.
- **Continuity** – We believe that investment policy continuity during times of Council personnel change is important. Similarly, the investment policy will focus on the objectives through all investment market environments.
- **A framework to review the philosophy and portfolio objectives** – This document will serve as a reference point for reviewing the organisation's investment philosophy and the portfolio objectives on a periodic basis.
- **A framework to review the investment manager** – This document will also serve as a reference point to evaluate the performance of the investment manager on a periodic basis.

2. PREAMBLE AND SCOPE

2.1. Objectives of the Society

The main objectives of the Society are:

- (i) to promote and advance the science of zoology.
- (ii) to protect, preserve and conserve the indigenous animals of Australia and their associated habitats.

Investment decisions made for the Fund are to be done so in a manner that is going to further the RZS NSW's ability to achieve its objectives both today and into the future.

2.2. Scope

This IPS sets the parameters for managing the Fund.

2.3. The structure of the RZS NSW Fund

The long-term corpus of the RZS NSW is comprised of two entities:

- 1) the funds related to the direct running of RZS NSW
- 2) the Ethel Mary Read Research fund.

Other separate entities (e.g. significant money donated or bequeathed to the Society) the may be added at future dates.

3. INVESTMENT OBJECTIVES

The investment objective of the Fund is to generate total returns (capital and income) that exceed the outgoings of the Fund and to maintain the real capital value of the Fund over time.

The investment *return objective* for the Fund is to achieve a long term total return (income and capital growth) of Consumer Price Index (CPI) All Groups + 5% over a rolling 5 year period after fees.

The strategy adopted must be set with a *risk objective* of limiting the probability of a negative return on the total portfolio to 1 year in every 5 years.

4. INVESTMENT GUIDELINES

4.1. Asset Allocation Considerations

The following factors are to be considered when determining the asset allocation for the Fund.

- The RZS NSW's tax concession charity status;
- The RZS NSW's perpetual time horizon;
- The benefits of holding investments which provide access to franked income;
- The need for sufficient liquidity to meet the distribution requirements;
- The potential impact of inflation, requiring an exposure to growth assets in order to maintain and grow the real capital value of the portfolio over the long term; and
- The utilisation of asset allocation bands and tactical asset allocation to provide for flexibility as the investment environment changes.

4.2. Asset Allocation Benchmarks and Ranges

The asset allocation for the Fund:

Asset Class	Benchmark	Ranges
Cash	7%	0% to 50%
Fixed Interest	28%	0% to 50%
Australian Equities	40%	0% to 60%
International Equities	25%	0% to 30%
Alternative Investments	0%	0% to 20%
	100%	

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.

4.3. Diversification

In accordance with a prudent approach, diversification should be employed to reduce the likelihood of the Fund generating negative returns. Appropriate diversification of managed Funds and individual investment selection will be undertaken to offset investment risk. The Fund's investments should be selected with the aim of limiting the chance of a negative return (in any 1 year) to once every 6 years.

Further to this no single investment shall exceed 10% of the portfolio at any time other than cash or bank term deposits.

4.4. Ethical Investment Considerations

The RZS NSW will not knowingly directly invest in an organisation that operates at the expense of the environment, 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 investments made in companies deriving material sales revenues from fossil fuels, tobacco, gambling, armaments and pornography industries.

4.5. Allowable Investments and Considerations

Only investments in the following asset classes are permitted:

Cash:

- cash deposits;
- cash management trusts;
- Australian licensed and regulated banks and deposit taking institutions with no less than an AA credit rating;
- Maturities less than 3 months;

Fixed Interest:

- Hybrid Securities;
- Government and Corporate bonds;
- Maturities greater than 3 months;
- Managed fixed interest products;

Domestic Equities:

- Direct Shares;
- Manage domestic equities products;
- Listed Real Estate Investment Trusts (REITs);

International Equities:

- Managed international equities products;

Alternative Investments:

- Managed alternative asset products.

5. BENCHMARKS AND REPORTING

5.1. Performance Reporting

A performance report for the Fund should be compiled and reviewed by the Investment Committee on at least a yearly basis. The report should include:

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

5.2. Performance Benchmarks

The following benchmarks are to be utilised:

Asset Class	Benchmark
Cash	UBS Bank Bill Index
Fixed Interest	UBS Composite Bond Index
Australian Equities	S&P/ASX 200 Accumulation Index
International Equities	MSCI World ex Australia Index A\$
	MSCI World ex Australia Index hedged to A\$
Alternative Investments	HFRI Fund of Funds Composite Index

The Investment Committee should, on a yearly basis, review the performance of the Fund using the performance benchmarks outlined above.

5.3. Reporting and Administration

The Investment Committee should prepare an annual report summarising current investment strategies, the Fund's performance, and any other relevant information. This report should be made available to members of the Society as part of the annual financial report.

6. EXTERNAL ADVISORS AND REVIEW

6.1. Selection Criteria for Appointment of Advisers

The Board may appoint advisors in a number of areas including:

- investment policy, including asset allocation, manager research, specialist asset classes;
- legal, including advice on the statutory obligations of the Fund and assistance with contract negotiations with external parties;
- tax, including ensuring the tax obligations of the Board and the Fund are met and advising on the tax implications of particular investment structures (especially offshore); and
- audit, including advice on ensuring that the management controls in place within the Board and around the Fund are of sufficient standard.

Selection of advisors for these roles will take into account, among other criteria specific to the role:

- demonstrated commitment to best-practice portfolio management;
- the skills and experience the advisor brings to the role;
- the substance and viability of the advisor; and
- the costs that can be expected to be incurred.

6.2. Appointment of Investment Adviser

The Investment Committee may appoint an Investment Adviser to, amongst other things, invest and manage Fund as its agent. In such an event, the organisation shall enter into an agreement with the Investment Adviser directing the Investment Adviser to manage the Fund according to this Policy.

The Investment Adviser should:

- hold an appropriate Financial Services License;
- have professional indemnity insurance cover and provide evidence of it upon request;
- 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 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 Adviser's functions, powers and duties under the Policy; and

- advise the Investment Committee of any breaches of the Investment Mandate and any material matters relating to the Investment Adviser that in the opinion of the Investment Adviser should be disclosed to the Investment Committee.

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

6.3. Investment Adviser Performance

The performance of the investment advisor 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;
- communication;
- proactive approach to investment opportunities;
- value adding customer service;
- flexible, accurate and timely reporting; and
- investment performance.

The Investment Committee recognises that short-term fluctuations may cause variations in performance; the Investment Committee intends to evaluate the Investment Adviser's performance from a long-term perspective.

6.4. Investment Adviser Review

Investment Advisers shall be formally reviewed by the Investment Committee every three years.

Significant underperformance of the Investment Adviser against both the investment objectives and/or the appropriate composite portfolios for the agreed asset allocation may result in Investment Adviser termination prior to the scheduled three-year review.

6.5. Breaches of Investment Policy

Where the Investment Adviser is in breach of the terms of the Investment Policy, the Investment Committee must conduct a review of the causes of the breach. Depending on the finding of this review the Investment Adviser may be terminated outside the formal review cycle.

6.6. Policy Review

Due to the nature of the financial markets and the potential for change in the underlying portfolio over time, the Investment Committee in conjunction with any appointed Investment Adviser will conduct an annual review of this policy, including allowable investments.

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

7. REVIEW PROCESS

7.1. Investment Manager Review

Investment managers shall be formally reviewed by the Investment Committee every three years.

Significant underperformance of the investment manager against both the portfolio objectives and/or the appropriate benchmarks for the agreed asset allocation may result in investment manager termination prior to the scheduled three year review.

7.2. 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, including allowable investments 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 management information reporting requirements.

8. RISK STATEMENT

In seeking to maximise returns the RZS NSW Council is mindful of the inherent risks. Those risks are considered because they offer a reasonable expectation of compensation in the form of returns above the risk free rate (excess returns) over the time horizon of the Fund. Risks accepted in order to pursue the investment objective fall into five categories:

8.1. Liquidity Risk

The RZS NSW recognises that short term risks may arise from the potential of the Fund to experience a shortfall in the income required to meet the expected cash outflows from the Fund. To offset this, the Fund should:

- maintain sufficient liquidity; and
- take into account the expected cash flows and costs.

8.2. Credit Risk

Credit risk (or counterparty risk) is the risk of default by the counterparty on its contractual obligations. At the Fund level, a framework exists to ensure that risk exposures remain within approved exposure limits based on the credit ratings of financial instruments and counterparties. Appointed managers of investments are required to ensure:

- the average credit quality within the manager's portfolio is within agreed guidelines;
- the exposure to different tiers of credit (including unrated debt) are within agreed guidelines; and
- the maximum permitted exposure to any one issuer is within agreed guidelines.

8.3. Market Risk

The Fund holds exposure to a wide range of assets which the Board expects will produce returns divergent from, and superior to, the risk-free rate over the long term.

Principal exposures include:

- broad equity market risk, both globally and in Australia;
- broad debt market risk, including interest rate duration, credit spread duration, credit quality migration and default risks;
- currency exposure, including risks of movement in the value of both the Australian dollar and the foreign currencies held;
- non-uniform performance within broad asset markets (e.g. divergence in returns by sector, geographic region, growth vs. value styles, and large vs. small stocks); and
- return uncertainties within the property and private markets.

8.4. Manager Risk

The requirements on the Fund's external managers to deliver superior returns also entail some risks. In particular, appointed managers may exceed or fall short of the objectives set for them by the RZS NSW Council. Market returns (beta) and manager performance (alpha) should be largely independent (i.e. performance of a manager relative to the broader market should not be impacted by the performance of that market itself).

Manager risk is generally managed by:

- careful selection and monitoring of managers to ensure there is sufficient confidence that each manager warrants the allocation of active risk to them; and
- monitoring the composition of the portfolios of active managers to ensure that there are no unintended biases away from the intended investment strategy.

8.5. Operational Risk

This is general operational risk that may involve an economic loss or reputation risk. It includes fraud, theft, unauthorised use of financial instruments and other breaches of delegated authority. This also includes loss due to poor transaction documentation, inadequate information systems or human error. To minimise this risk the RZS NSW will:

- keep proper accounts and records of the transactions and affairs;
- maintain a sufficient internal control framework that minimises potential loss arising from unrecorded or unauthorised transactions; and
- ensure the availability and reliability of hardware and software systems.

9. RELEVANT STATE AND TERRITORY LAWS

The RZS NSW must comply with investment requirements imposed by State or Territory laws.

9.1. Taxation

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

10. POLICY ADOPTION

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

This Investment Policy was adopted by the Society

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Dr Martin Predavec
Director - President – RZSNSW
July 2015

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Associate Professor Peter Banks
Director - Treasurer – RZSNSW
July 2015

10.1. Change History

Version	Approval date	Approved by	Change
1.1	July 2015		