

## **Australian and New Zealand College of Anaesthetists**

### **INVESTMENT POLICY AND INVESTMENT STRATEGY FOR LONG-TERM FUNDS**

#### **1. INTRODUCTION**

The Australian and New Zealand College of Anaesthetists (ANZCA, “the College”) is committed to maintaining financial sustainability in order to meet its objectives and in accordance with its mission.

The College is a “not for profit” bi-national company (ANZCA Ltd.) with assets in Australia and New Zealand. The assets include short term cash and cash equivalents (which are governed by Corporate Treasury policy) as well as long term assets (typically financial funds under external management). The long-term financial funds are grouped together in the Investment Portfolio, which is managed in Australia. These long-term financial funds are defined as those finances that are separate from those required for day to day operations of the College, and which can therefore be invested for periods of beyond 12 months, in accordance with the College’s determined risk profile and control bands set out in this policy.

The responsibility for management of the Investment Portfolio has been delegated to the Investment Sub-committee under direction from Council and the Finance, Audit and Risk Management (FARM) committee. The Investment Portfolio is subdivided into 2 main moieties:

**1.1 ANZCA General Funds (AGF).** These funds are available for use by ANZCA for underwriting operational risk or funding large projects that are beyond the scope of annual budgets. In general, these funds are generated from operating budget annual surpluses, capital growth and investment earnings.

**1.2 ANZCA Research Foundation Fund (ARFF)** is a combination monies received from donations, endowments, bequests, fundraising activities, and investment earnings to support the provision of medical research in anaesthesia and pain medicine. The ARFF is recognised as a separate element of the total investment portfolio and may have a separate risk profile.

This policy should be read in conjunction with ‘[The Corporate Treasury Policy](#)’ and ‘The Investment Sub-committee Terms of Reference’ (IS-C ToR - see <http://www.anzca.edu.au/documents/investment-committee-terms-of-reference-0813>).

## 2. PURPOSE

The purpose of this policy is to provide the Investment Sub-committee, FARM, and the College's independent investment advisers with a framework to manage the College portfolio in accordance with the ANZCA Council's instructions and in accordance with the IS-C ToR.

- 2.1. The purpose of the **AGF** is to provide a risk mitigation reserve as well as to meet, as required and approved by Council, capital expenditure programs, special projects and additional working capital where it is deemed necessary to meet ANZCA's strategic objectives.
- 2.2. The purpose of the **ARFF** is to provide a regular income stream to fund research and other sponsored programs (e.g. education, indigenous health, overseas aid) in line with ANZCA's vision and research strategy. In contrast to the AGF, the corpus of the ARFF is not to be drawn down i.e. it is to be preserved. The amount of funds allocated from the ARFF annually is determined by the Foundation Committee under an agreed formula. The aim is to continue growth (accumulation of the corpus) in the ARFF balanced by the requirement to provide annual funding of research. The formula should be reviewed regularly to ensure the requirements set out above are being met.

## 3. DEFINITIONS

**Assets** – in financial accounting, an asset is an economic resource. Anything tangible or intangible that can be owned or controlled to produce value and that is held to have positive economic value is considered an asset. Can be further subdivided into:

**Current Assets** – cash, or cash equivalent, and any other company asset that can reasonably expect to be converted into cash within one year

**Non-Current Assets** – assets that are not likely to turn into unrestricted cash within one year. Examples include intangible assets (e.g goodwill, brand recognition, intellectual property) and tangible assets (e.g. property, plant and equipment). Currently, the College owns property in Melbourne and Sydney only. It also has so-called "Cultural assets" which include museum items and artwork.

**CPI** –the Consumer Price Index and is an indicator of the inflation rate run by the Australian Bureau of Statistics. It measures the changing price of a "fixed basket" of goods and services purchased by an average household in 8 capital cities around Australia. The rate at which CPI is increasing is also the Reserve Bank's official measure of inflation.

**Hybrids** - a single financial security that combines two or more different financial instruments. Hybrid securities, often referred to as "hybrids," generally combine both debt and equity characteristics

**Earnings** – the total amount of increase in the Investment portfolio, typically measured from one year to the next. There are 2 main components – Capital Growth and Income Received

**Capital Growth** - is the increase in an asset's or investment's value over time. It is measured by comparing the asset's current value with how much it originally cost, or in the case of the investment portfolio, one year to the next.

**Income received** – is the amount of funds received either as interest, dividends or franking credits. Typically, income is received at the end of any given financial year, in the month of July.

**Liability** – A liability is a company's financial debt or obligations that arise during the course of its business operations. Current liabilities are debts payable within one year, while long-term liabilities are debts payable over a longer period.

**Liquidity**– term used to describe the ease that assets can be converted to cash

**Managed funds** - Managed funds pool the money of individual investors. The combined capital is invested by a professional fund manager, in some cases being applied across a range of asset classes such as shares, bonds, property and infrastructure assets.

**Working Capital** – is a measure of both a company's efficiency and its short-term financial health. It is the amount of a company's assets minus its current liabilities. Another way of expressing this is current ratio (current assets divided by current liabilities)

**Yield** - is the income return on an investment, such as the interest or dividends received from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value or face value.

## 4. BODY OF POLICY

### 4.1 Principles of the Investment Portfolio

The College's policy is to invest in liquid and highly transparent equities (or asset classes), as selected by the investment sub-committee, because these equities offer diversification and access to a broad range of assets or markets. These equities include:

- Cash
- Fixed income (bonds or term deposits)
- Hybrids
- Managed funds

Note: The College owns real estate in Melbourne and Sydney. These assets are considered not to be part of the investment portfolio.

As outlined in section 4 of this policy the College places a strong emphasis on the criteria for selecting the various funds and control around minimum and maximum allocation of each asset class to a level acceptable to the College's risk tolerance.

To protect the real value of its investments, the College expects to achieve returns (measured as income received plus capital growth before costs) that, as a minimum, exceed the CPI growth in any year. It should be recognised that higher returns indicate higher exposure to risk. As such, the overarching policy position of ANZCA is that the College is an investor not a speculator.

### 4.2 Governance

#### 4.2.1 Committee membership

Sub-committee membership is as stipulated in Regulation 2. Note that the Investment Sub-committee may co-opt members who have high levels of financial literacy and are not fellows of the college.

No part of the portfolio can be invested with any councillor, fellow, employee, associates or associated entities. Potential conflicts of interest must be declared and managed in accordance with the ANZCA Conflict of Interest policy (see <http://www.anzca.edu.au/documents/conflict-of-interest-policy>)

#### 4.2.2 External Investment Manager

Additionally, in order to acquire access to specialist skills and resources, the College engages an external investment manager. Such investment services should be obtained from a suitably qualified investment manager who attests to be free of bias arising out of commercial incentives or conflicts of interest.

The selection of the investment manager will be performed by the Investment Sub-committee and approved by FARM.

The College will ensure that the terms of the investment manager's appointment and the methods by which value will be assessed are properly agreed and documented, and subject to an annual review. The monitoring of such arrangements rests with the Investment Sub-committee.

The investment manager must adhere to this policy and execute the investment decisions made by the Investment Sub-committee.

#### 4.2.3 Auditors

The external auditor is required to verify compliance with financial policies and authorised investments at least annually.

#### 4.2.4 Decision making process

The authority of the Investment Sub-committee to make changes to the overall strategic mix of the portfolio is limited to movement within approved control bands for each asset class as set out in section 4 of this policy. Any changes which fall outside these control bands require prior approval by FARM and Council. The control bands will be determined annually in conjunction with the external investment manager and approved by Council.

The Council reserves its right to approve certain work to be funded from the College's investments. The Council should not approve expenditure from proceeds from sale of investments if this expenditure has an impact on the ability of the College to meet liabilities including employee entitlements. For guidance the Council should refer to the 'ANZCA Corporate Treasury Policy', recommendations from the FARM Committee and information provided within budgets, financial reports to review levels of cash on hand, investments and liabilities when approving expenditure from proceeds from sale of investments.

### **4.3 "Day to day" management**

Investments must only be held in the name of the Australian and New Zealand College of Anaesthetists (ANZCA).

All transfers of principal and/or earnings must be made directly to a nominated account held in the name of ANZCA or ANZCA Research Foundation (ARF), as appropriate. A clear audit trail of movement of funds is mandatory.

A register of investments must be maintained and updated each time an investment is purchased or redeemed.

A reconciliation of all investments and earnings must be completed monthly to ensure all investments and earnings are recorded.

The accumulation of cash in excess of projected annual working capital requirements should be invested within the AGF corpus in accordance with this policy and the ANZCA Delegations Policy.

#### **4.4 Investment risk statement**

The College needs to be aware of the key types of risk that it faces which may have differing impacts on the performance of the AGF and ARFF.

- Funding/liquidity risk. Where the portfolio experiences a shortfall in income that can prevent or restrict the College from meeting its budgeted outgoings and more seriously its core obligations, for example, where the College experiences an over reliance on investment income to meet its operational requirements.
- Sustained underperformance. This long-term risk arises from a prolonged decrease in the real value of the portfolio either through sustained falls in the market value of the assets or the erosion of real value through underperformance of the asset mix.

This policy includes the investment strategy in section 5 which takes into consideration these risks, and the purpose and requirements of each investment fund.

#### **4.5 Socially responsible/ethical investment restrictions**

Investments that have a known risk of a negative reputation consequence to ANZCA should be avoided. The following exclusions or limits are to be placed on investments to be consistent with ANZCA's mission.

- Tobacco.
- Weapons manufacture and distribution.
- Gambling.
- Pornography.

It is recognised that there may be incidental involvement in the restricted industries, and such involvement should not be seen as an automatic breach of this policy.

Investing in health care industry companies should not be interpreted as an endorsement by ANZCA of the company or its products.

Where the investment manager allocates funds to external fund managers, then these managers by preference should take into account social, environmental and corporate governance factors in its decision making process.

If the Investment Sub-committee becomes aware of an investment that breaches the above criteria, the investment manager will be instructed to dispose of the investments at the earliest opportunity.

#### **4.6 Return objectives**

Specific return objectives are accepted as being the agreed performance benchmark index relating to each asset class which forms part of the overall portfolio. These benchmarks are reviewed annually by the Investment Sub-committee in conjunction with the external investment manager.

#### **4.7 Approved asset classes**

Due to the nature of the College's business, the acceptance of the investment risk statement outlined in 4.1 above and the desire to protect the corpus of the portfolio, it is considered inappropriate for the College to enter into any investments that would be considered overly aggressive.

The asset classes that the funds can be invested in and the appropriate benchmark index against which each of the asset class's performance is to be measured are outlined in the section 5 of this policy.

#### **4.8 Asset Allocation**

The asset allocation for the College portfolio has been derived from the investment risk statement and return objectives set out within this policy document.

Asset allocations should reflect the elements as defined in the Risk Statement section above. The asset allocation is to be recommended by the investment manager to the Investment Sub-committee based upon that statement.

## 5. INVESTMENT STRATEGY

This policy empowers Council to determine appropriate investment strategy for implementation by the Investment Sub-committee. The elements of the strategy include:

- risk profile identification,
- asset allocation,
- control bands and benchmarks; as well as
- achievable targets with regard to funds accumulated and time frames.

The primary objective of the overall risk profile is capital growth accepting a moderate level of volatility in the value of investments and expecting a moderate level of income. This overall risk profile is defined as **'balanced growth'** for both ANZCA General Funds (AGF) and ANZCA Research Foundation Fund (ARFF). Within the balanced growth profile, the AGF will be slightly more conservative and the ARFF slightly more aggressive

**Table A** in section 5.1 illustrates how these profiles compare to the range of risk profiles. These profiles are reviewed annually by the Investment Sub-committee.

### 5.1 Asset Allocation

The configuration of the proposed asset allocation is driven by the risk profile. As set out by the investment manager there are eight major asset classes across which each portfolio is normally spread and as can be seen in **Table A**, the more aggressive the profile, the higher proportion of growth assets, particularly equities, are included in the mix.

In terms of returns, the table shows that:

- with a balanced growth profile the expected total return is CPI plus 300 basis points (net of fees) with a one in six year chance of a negative return.

**Table A-Risk Profile and Asset Allocation**

**Source JBWere**

<b>Risk Profile</b>	<b>Capital Defensive</b>	<b>Balanced Income</b>	<b>Balanced Growth</b>	<b>High Growth</b>
Defensive assets	70%	50%	35%	10%
Growth assets	30%	50%	65%	90%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Asset Allocation</b>				
Cash	20%	10%	10%	5%
Aust. fixed interest	25%	20%	10%	0%
Global fixed interest	20%	15%	10%	0%
Alternative assets - defensive	5%	5%	5%	5%
Alternative assets – growth	0%	0%	5%	10%
Property	5%	5%	5%	5%
Australian shares	15%	25%	30%	45%
International shares	10%	20%	25%	30%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Expected long-term returns (% pa)	CPI + 2.0%	CPI + 2.5%	CPI + 3.0%	CPI + 4.0%
Chance of a negative return	13.0%	17.1%	19.1%	21.8%
	(1 in 8 years)	(1 in 6 years)	(1 in 6 years)	(1 in 5 years)
<b>Historical results</b>				
1 year return	5.8%	7.8%	9.2%	11.6%
3 year return	5.0%	6.5%	7.3%	8.6%
5 year return	6.8%	9.0%	10.2%	12.0%
10 year return	5.8%	5.9%	5.7%	5.2%
20 year return	6.6%	7.0%	7.1%	7.4%
Worst 12 month rolling return (last 10 years)	-7.2% (Nov 2008)	-15.4% (Nov 2008)	-20.9% (Nov 2008)	-30.4% (Nov 2008)
Best 12 month rolling return (last 10 years)	14.9% (Mar 2010)	19.5% (Mar 2010)	22.5% (Mar 2010)	29.2% (Mar 2010)

## 5.2 Control Bands

Whilst a correctly administered risk profiling process and a consequent investment strategy determine a model asset mix as outlined in **Table A**, in reality at various times the actual allocation to particular asset classes will vary. This can arise through a number of circumstances, such as

- holding of cash for short periods of time as funds are moved between classes;
- the adoption of a tactical position to take advantage of favourable market conditions;
- relative under or over performance in asset classes leading to imbalance.

In order to control the portfolio's exposure, control bands are put in place to limit the minimum and maximum allocation of each asset class to a level acceptable to the college. Should the Investment Sub-committee or the investment manager recommend significant changes to the asset allocation that exceed the approved control bands, FARM and Council must be consulted prior to such a change occurring as this would constitute a change to the investment strategy.

**Table B Balanced Growth Profile**

*Source JBWere*

Asset Class	Target Asset Allocation (balanced growth )	Ranges	
		Minimum	Maximum
Cash	10%	1%	30%
Fixed interest	25%	10%	60%
Property	5%	0%	15%
Australian shares	30%	20%	60%
International shares	25%	10%	60%
Alternative assets	5%	0%	20%
<b>Total</b>	<b>100%</b>		

### 5.3. Benchmarks

A set of benchmarks indices is used to measure performance of each asset class as detailed below in **Table C**.

**Table C Benchmarks**

*Source JBWere*

Asset Class	Performance Benchmark Index
Cash	UBS Bank Bill Index
Fixed interest	UBS Composite All Maturities
Australian listed property	S&P/ASX 200 Property Trust Accumulation
International listed property	UBS Global Property Investors (hedged)
Australian equities	S&P ASX All Ords Accumulation
Australian equities – large capitalisation	S&P ASX 200 Accumulation
Australian equities – small capitalisation	S&P/ASX Small Ordinaries Accumulation
International equities – unhedged	MSCI World ex Aust (unhedged)
International equities – hedged	MSCI World ex Aust (hedged)
International equities – small capitalisation	MSCI Small Cap (unhedged)
International equities – Asia	MSCI Far East ex Japan (unhedged)
Alternative assets	HFRI Fund of Fund Composite Index
International equities-emerging markets	MSCI Emerging Markets (unhedged)

## CHANGE CONTROL REGISTER

Version	Date	Author	Reviewed By	Approved by	Changes
1	Apr 2009	Director, FB&A	Investment Committee	Council	Creation
2	Aug 2010	Director, FB&A	Investment Committee	Council	Annual Update – transferred benchmarks to Strategy document. Updated Foundation title
3	June 2011	EGM Corporate Resources	Investment Committee	Council	Annual Review – minor updates to titles and frequency of meetings
4	Mar 2012	EGM Corporate Resources	Investment Committee	Council	Annual review – take account of the development of the Terms of Reference
5	June 2012	EGM Corporate Resources	Investment Committee	Council	Changed reference to HCI as requested by Council
6	July 2013	GM, Finance	Investment Committee	Council	Comprehensive review of all policy statements including investment risk statement and reference to UN PRI
7	August 2014	GM, Finance	Investment Committee	Council	Comprehensive review that includes amalgamation of investment policy and strategy documents, exclusion from this policy short-term funds, review risk profiles and control bands.
8	February 2018	GM Finance & IT, Treasurer	Investment sub-committee, FARM	Council	Comprehensive review including review of risk profiles and control bands, definitions inserted.

Date of next review	April 2020
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