Anglican Church
Diocese of Perth

The Perth Diocesan Trustees Investments

Approved by the Perth Diocesan Trustees 20 December 2018
Next Review

1. POLICY STATEMENT

1.1 The Perth Diocesan Trustees ('the Trustees') have a policy of investing all funds available for investment for maximum return while recognising their obligations to manage an investment portfolio in such a manner that will achieve a reasonable balance between investment return and security over the investment assets under their control. The Trustees will not knowingly invest in an organisation that operates at the expense of the environment, human rights, public safety; or in communities in which the organisation conducts its operations at the expense of the welfare of its employees. This ethical approach is also to be in line with the values of the Anglican Church as expressed from time to time.

2. PURPOSE

2.1 This policy sets out the responsibilities, principles and protocols with regard to all investments of the Trustees except for real estate held for reasons other than investment (such as parish properties).

3. LEGISLATION

3.1 The investment policy is governed by legislative provisions under The Anglican Church of Australia (Diocesan Trustees) Act 1888, The Diocesan Trustees' Statute 2016, The Trust Funds Statute 2016 and the Trustees Act 1962.

4. COMPOSITION

4.1 The Trustees will maintain a Strategic Investment Committee and the following sub committees in terms of Corporate Governance Policy number 46 in order to set overall asset class allocations and targets for the Diocese and to review these from time to time in light of changing economic circumstances. The following two sub committees will give advice on the investment of assets within their respective allocations and report directly to PDT.

Investment Sub Committee This Sub Committee gives advice to Trustees on all investments (other than direct property related).

Property Sub Committee: This Sub Committee is responsible for analysing direct property related investments on behalf of the Trustees and particularly those properties purchased as assets for the various trusts managed by the Trustees.

4.2 The Trustees will appoint at least three persons for a term of 3 years to comprise the Property Sub Committee and Investment Sub Committee. At least two of these persons shall be Trustees. The Strategic Investment Committee will consist of two Trustees from the Property Sub Committee and two Trustees from the Investment Sub Committee.

4.3 The Sub Committees shall meet as is necessary but not less than annually. Minutes of meetings shall be maintained and submitted to the Trustees.

4.4 The Diocesan Secretary and Chief Financial Officer shall attend all meetings of the Sub Committees.

4.5 Two members of the Investment and Property Sub Committees, including at least one Trustee, shall form a quorum. Three members of the Strategic Investment Committee shall form a quorum.

4.6 Decisions require a majority of members present at a meeting or a minimum of two members reaching a consensus if a decision is made outside a meeting.

5. INVESTMENT OBJECTIVES

5.1 The Trustees hold investment funds for the beneficiaries of trusts. Accordingly, any investment made by the Trustees needs to reflect the purpose of the respective trust, the needs of the beneficiaries and the term of the trust.

5.2 The objectives of the Sub Committees are broadly to secure acceptable capital growth and income for all investment assets (including direct property) within the risk profiles set by the Trustees. In relation to direct property, the Property Sub Committee's objectives are to acquire, develop, rent, maintain and dispose of investment property to optimise the value to the respective beneficiaries of the trusts.

6. RISK PROFILES

6.1 The objectives and strategies adopted in relation to the different risk profiles are as follows:

- **Low Risk** - to provide relatively stable returns over the medium term with potential for some long-term capital growth by investing in a portfolio with a majority of defensive assets but maintaining a component of growth assets.
- **Low to Medium Risk** – to provide a balance of income and capital growth over the medium to long term by investing in a portfolio balanced between growth assets and defensive assets.
- **Medium Risk** – to provide returns mostly from capital growth over the long term by investing primarily in growth-oriented assets but with lower volatility of returns.

6.2 The objectives and risk profiles of the major trusts administered by the Trustees are as follows:

Bishop Hale's Trust
To deliver long-term real capital growth and cash income that, having regards to the short-term and long-term interests of the Trust, support planned distributions to the beneficiaries (the Archbishop's Establishment, the Diocese and the Province) based on a medium risk profile.

Cathedral Square Foundation
To deliver long-term real capital growth and cash income that, having regards to the short-term and long-term interests of the Trust, support planned distributions to the beneficiaries (the Cathedral, the Diocese and the Province) based on a medium risk profile. The Cathedral Square and the properties thereon are core assets of this Trust.

H1&H7 Trust
To deliver long-term real capital growth and cash income that, having regards to the short-term and long-term interests of the Trust, support planned distributions to the beneficiaries (Guildford Grammar School, Christ Church Grammar School and the Anglican Schools Commission) based on a medium risk profile. The Cloisters complex is the core asset of this Trust and current practice is to distribute all free cash flow to the beneficiaries.

Diocesan Funds
To deliver long-term real capital growth and cash income that, having regards to the short-term and long-term interests of the funds, support planned distributions to the Diocese based on a medium risk profile.

Investment Pools
Funds invested by the Trustees under The Trust Funds Statute 2016:

a) **Fixed Trusts** (Pool 1 - Income only is expendable) – to achieve long-term real capital growth and cash distributions with a total target return of 6% above inflation based on a medium risk profile.

b) **Variable Trusts** (Pool 2 - Income and capital is expendable) – to maintain the capital value in real terms and generate cash distributions with a total target return of 4% above inflation based on a low to medium risk profile.

c) **Diocesan Funds Common Pool** (Pool 3 - All other moneys held upon trust) – to generate cash distributions with a total target return of 2.5% above inflation based on a low risk profile.

7. INVESTMENT POOLS

7.1 Investment Pools are common pools of trust funds that the Trustees may establish under policies of the Trustees. The current Investment Pools are:

Property Investment Pool – Comprising designated property assets contributed by trusts to be pooled together for the sharing of income and capital gains with the objectives to:

a) Increase the Property Pool's gross assets by 9% per annum (pre-distribution). This will be measured on a rolling 5-year basis (1 year's prior actual, current year budget and 3 years future forecasts). Such an increase is measured by both realised cash returns (net profit) and unrealised (net growth in value of the property investments) factors.

b) Achieve a "cash" yield sufficient to meet the forecast annual costs of interest, administration, capital expenditure (minor works) and net distribution. This will be based on a rolling 5-year cash flow forecast.

c) Achieve minimum net growth in the property pool NTA of 4% per annum after cash distributions of 5% per annum.

Equity Investment Pool – Comprising equity investments including shares, bonds, managed funds and other listed securities with the objectives to:

a) Manage all equity investments in accordance with the overall investment strategy under this policy.

b) Offer varying portfolios with strategic asset allocations constructed to support a specific risk profile e.g. low, low-medium and medium risk profiles and investment horizons e.g., short, medium or long term.

c) To generate returns in line with real return objectives taking account of inflation. Returns are measured by both realised cash returns (net profit) and unrealised (net growth in value of the equity investments).

8. INVESTMENT STRATEGY AND MANAGEMENT

8.1 Investments are to be made in line with a trust's objectives, the nature of any core assets, risk profile and required return. As far as possible, investments will be diversified across asset classes, within an asset class and across investment managers.

8.2 The asset classes are:

Property		- Direct - Managed Listed - Managed Unlisted
Other Investments		
	Cash	- Cash Management Accounts, Term Deposits
	Fixed Interest	- Managed Fixed Interest
	Alternate assets	- Managed Alternate Assets
	Equities Australian	- Direct - Managed Funds (Shares)
	Global	- Managed Funds (Shares / Property)

8.3 The Strategic Investment Committee is to review the allocation of assets between Property and Other Investments for the various trusts at least annually.

8.4 Property Sub-Committee:

a) The Property Sub Committee may appoint property managers to manage investment properties administered by the Trustees. The property managers will be required to report monthly on income, expenditure, tenant debts and leases pertaining to the relevant properties.

b) Investment in direct property is to be selected by the Property Sub Committee and recommended to the Trustees as opportunities arise.

8.5 Investment Sub Committee:

a) The Investment Sub Committee may appoint equity asset managers to manage portfolios within the Equity Investment Pool. Equity asset managers will be chosen based on appropriate advice, as having the relevant attributes: appropriate skills and experience; operational capabilities; and financial and organisational stability. Such managers will manage their respective portfolios, within agreed mandates; advise on, purchase, sell or hold investments appropriate to the strategic asset allocations for each portfolio. The reporting obligations of the equity asset managers will vary according to each appointment. Equity asset managers will be invited to address meetings of the Investment Sub Committee from time to time to advise any major changes in economic outlook and its effect on investment strategy and performance.

b) The Investment Sub Committee is to review the allocation of assets to equity asset managers and the strategic asset allocations of each equity portfolio at least annually. The Diocesan Secretary andChief Financial Officer have the discretion, jointly to vary funds invested in equity portfolios with equity asset managers.

c) Equity Investment Restrictions:

- No investment in an externally managed fund (i.e. a fund where trust funds are pooled together with other investors' funds) is to represent more than 25% of any one trust/pool, unless specifically agreed to by the Investment Sub Committee.
- No investment in any one entity is to represent more than 10% by value of the Equity Investment Pool unless specifically agreed to by the Investment Sub Committee.
- Up to 5% of the Equity Investment Pool in small cap/emerging Australian companies maximum initial investment of $50K in any one portfolio and maximum single stock exposure of 2% in any one portfolio.
- Investments in unlisted investments may be made only if specifically agreed to by the Investment Sub Committee.
- Covered option contracts are allowed so as to enhance the income and are not to exceed exposure limits for single stock.
- No investment which requires direct borrowing by the Trustees may be made without their prior approval.
- No direct investments in off-shore listed companies.
- Any investment must have regard to the Responsible Investing requirements set out in Section 9 below.

d) In the case of managed funds, funds will be selected and approved by the Investment Sub Committee. The selection of an investment manager is to be based on background, experience, investment philosophy, investment style, past performance, efficiency, client service and cost. Funds should be wholesale funds with consistent performance and lowest fees (based on the fund's Management Expense Ratio) using the sophisticated investor status if appropriate. All managed funds are to be reviewed at least annually.

e) Liquid funds are only to be invested with the Anglican Community Fund Inc where practical, or alternatively with an entity that has no less than an AA-Long Term Rating (S&P or equivalent).

9. RESPONSIBLE INVESTING

9.1 The Trustees will take environmental, social, governance (ESG) and ethical issues into account during investment processes and when appointing equity asset managers. The Trustees will manage these non-financial risks by excluding investments in businesses involved in controversial industries, supporting the most sustainable companies and a focus on ESG risks.

9.2 Investing will be in line with the values of the Anglican Church and the Trustees will not knowingly invest in an organisation that operates:

- at the expense of the environment, human rights, public safety; or
- in communities in which the organisation conducts its operations at the expense of the welfare of its employees.

9.3 Specifically, the Trustees will ensure that no direct or indirect investments will be made in companies deriving income:

- from tobacco, armaments, pornography;
- more than 5% of their primary income from gaming, but alcoholic beverage providers are not excluded; or
- any other organisation as directed from time to time by Synod.

9.4 Preference will be given by the Trustees to investing in organisations deriving income from ‘renewable energy’ rather than those deriving income from ‘non-renewable’ energy e.g. fossil fuels and furthermore the Trustees will:

- limit investment in fossil fuel producers and related industries to a maximum of 10% of its total equity investments; and
- not invest in any company with a thermal coal exposure that exceeds 10% of the total company value.

9.5 The Investment Sub Committee will not, without the prior approval of the Trustees, invest in an entity in which a Trustee has a substantial interest or holds a director, officer or management position. Any investment recommendation in such an entity must be accompanied by written independent professional advice. Any pecuniary interest by a Trustee in an investment must be disclosed and that Trustee must not vote as to whether or not the Trustees invest. A Trustee is taken to have a substantial interest in an entity where that Trustee has an interest that is neither remote nor nominal and affects a proprietary or pecuniary interest and, as a consequence, may be perceived to benefit by a decision of the Trustees to invest in that entity.

10. PERFORMANCE MONITORING

10.1 The principal goals in monitoring investment performance are to determine the performance of:

a) each investment against the relevant benchmark; and

b) the investment pool as a whole against its objectives.

10.2 The benchmarks for each asset class are as follows:

Asset Class	Benchmarks
Fixed interest	UBS Australia Bank Bill Index
Property	S&P/ASX 200 REIT Accumulation Index
Australian equities	S&P/ASX 200 Accumulation Index
Global equities	MSCI World Ex Accumulation Index
Alternative assets	HFRI Fund of Fund Composite Index

10.3 The benchmarks for equity investment portfolios are as follows:

Portfolio Type	CPI*** +x%	Total Return (%)*	Cash income (%)**	Capital Growth (Nominal) (%)	Capital Growth (Real) (%)	Risk	Time Horizon
1	6.00	8.50	4.75	3.75	1.25	High	7+ years
2	4.00	6.50	4.25	2.25	(0.25)	Medium	4-6 years
3	2.50	5.00	4.00	1.00	(1.50)	Low	1-3 years

* nominal total return income including imputation refunds and capital gains (unrealised and realised) after fees.
** dividend and interest income imputation refunds after fees.
*** Using CPI of 2.5%

10.4 As the Trustees are investing in asset classes for long-term returns and holding investments that may have significant volatility in the short-term, investment performance will be measured on a five-year rolling basis.

10.5 Reports on the portfolio's assets and activities will be presented to the Sub Committees each quarter. Actual results are to be measured against benchmarks, and poor performing managers/products are to be divested at the appropriate time.

11. REVIEW

11.1 A strategy review of this policy should be undertaken at least every 3 years and a complete review of this policy should be undertaken every 5 years.