

1. Purpose of policy

The following policy is intended to outline the University's investment policy regarding the investment of surplus funds, with the overarching objective to maximise earnings within approved risk guidelines to ensure the security of funds and to:

- a) provide guidance with respect to the strategic management of the University's financial assets;
- b) provide an overview of the University's investment and debt management approach within the parameters of the governing acts; and
- c) provide a flexible management approach to the University's investments.

2. Application of policy

This policy applies to all staff and members of University decision-making or advisory bodies.

The policy applies to the investment of all surplus funds held by the University and undertaken in accordance with the Statutory Bodies Financial Arrangements Act 1982 (SBFA Act).

3. Regulatory background

All investments are to be made in a prudent and appropriate manner in accordance with the following legislative instruments and administrative procedures:

- University of the Sunshine Coast Act 1998
- Statutory Bodies Financial Arrangements Act 1982
- Statutory Bodies Financial Arrangements Regulation 2007
- Financial Accountability Act 2009
- Financial and Performance Management Standard 2009
- Financial Management Practice Manual
- USC Schedule of Delegations and associated sub-schedules

4. Definitions

Please refer to the university Glossary of Terms for policies and procedures. Terms and definitions identified below are specific to this policy and are critical to the effectiveness of it:

Prudent Person is the reasonable person of the common law representing an objective standard against which any individual's conduct can be measured. It is used to determine if a breach of the standard of care has occurred, provided a duty of care can be given.

Credit risk is the risk of loss due to the failure of an investment issuer or guarantor.

Investments are defined as arrangements that are undertaken or acquired with the expectation of achieving a financial return through interest, profit or capital growth.

5. Policy statement

The University will adopt a systematic approach to the investment management of University funds to achieve the following objectives:

- ensure that the University complies with statutory and legislative requirements;
- preserve and improve the value of the University's investment assets over time;
- maintain access to funds in accordance with the University's cash flow requirements, including access to a reasonable level of funds at short notice for unforeseen requirements;
- earn a return commensurate with the term of the University's investments and the credit worthiness of the underlying counterparties.

6. Ethics and conflicts of interest

6.1 Prudent person standard

APPROVAL AUTHORITY

Council

RESPONSIBLE OFFICER

Vice-Chancellor and President

DESIGNATED OFFICER

Chief Operating Officer

FIRST APPROVED

30 August 2011

LAST AMENDED

18 December 2015

EFFECTIVE START DATE

18 June 2013

REVIEW DATE

1 December 2018

STATUS

Active

The standard of prudence is to be used by designated officers when managing the overall portfolio. Investments will be managed with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons. This includes having in place appropriate reporting requirements that ensure the investments are being reviewed and overseen regularly.

Designated officers are to manage the investment portfolios not for speculation, but for investment in accordance with the spirit of the policy. Designated officers are to avoid any transaction that might harm confidence in the University and must consider the safety of capital and income objectives when making an investment decision.

6.2 Ethics and conflicts of interest

Designated officers/employees must refrain from personal activities that would conflict with the proper execution and management of the University's investment portfolio. This includes activities that would impair the designated officer's ability to make impartial decisions.

The policy requires that employees and investment officials disclose to the University Council any conflict of interest or any investment positions that could be related to the investment portfolio.

6.3 Delegation of authority

Authority for implementation of the policy is delegated by the University Council to the Vice-Chancellor and President in accordance with the University Sunshine Coast Act 1998

Authority for the day-to-day management of the University's investment portfolio is to be delegated by the Vice-Chancellor and President to the Chief Operating Officer and subject to regular reviews by the Planning and Resources Committee.

Planning and Resources Committee is responsible to Council for the approval of investment management policies for the University.

7. Treasury management

.1 Investment strategy

The Chief Operating Officer is responsible for overseeing the active management of short and medium term investment categories. This active strategy ensures an appropriate return on investment aligned to the University's capital requirements and includes asset allocations, financial institution and financial instrument selection.

The Chief Operating Officer is required to manage the University's investment portfolio in accordance with this policy. Documented treasury procedures must incorporate appropriate internal controls and segregation of duties. Speculative transactions are not permitted. The security of capital and income objectives will be the major consideration when making an investment decision.

The investment quantum and duration is aligned to the University's short, medium, and long term cash flow requirements. Information is sourced and separated into three timeframes for cash flow management

- Daily – where a daily cash requirement is projected. This information is prepared with inputs from key areas of payroll, accounts payable, accounts receivable and capital, investments and loans
- Monthly – where the monthly cash requirement is projected. This information is sourced from Planning and Budget documents
- Yearly – where the yearly cash requirement is projected. This information is sourced from the three-year operating budget and five-year Strategic Asset Management Plan (SAMP).

Investments will be made at the most advantageous rate available at the time for the particular investment type, and in a way that is considered the most appropriate given the circumstances.

At times where markets are highly volatile and recognising there will always be peaks and troughs over the longer investment cycle, the University will rely on its long term investment manager, Queensland Investment Corporation (QIC), to actively position the long term investment portfolio within Strategic Asset Allocation ranges agreed with the Chief Operating Officer for the relevant investment pools.

.2 Investment fund managers

The University applies a passive management strategy to long term investment categories by engaging external professional investment managers to actively manage its long term investments. The SBFA Act restricts the appointment of long term investment managers to QIC and Queensland Treasury Corporation (QTC) without separate approval (excluding freehold land and lease arrangements).

USC has retained QIC and QTC as investment and cash fund managers, and may engage other fund managers from time to time subject to the appropriate approvals.

8. Investment objectives

The University's overall objective is to invest its funds at the most advantageous rate of interest available to it at the time, for that investment type, and in a way that it considers most appropriate given the circumstances.

In priority, the order of investment activities shall be preservation of capital, liquidity and return.

.1 Preservation of capital

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security of principal of the overall portfolio. This includes managing credit and interest rate risk within given risk management parameters and avoiding any transactions that would prejudice confidence in the University or its associated entities.

Credit risk

The University will evaluate and assess credit risk prior to investment. Credit risk is the risk of loss due to the failure of an investment issuer or guarantor. The designated officer will minimise credit risk in the investment portfolio by pre-qualifying all transactions including the brokers/securities dealers with which they do business, diversify the portfolio and limit transactions to secure investments.

Interest rate risk

The designated officers will seek to minimise the risk of a change in the market value of the portfolio because of a change in interest rates, by considering the cash flow requirements of the University and structuring the portfolio accordingly. This will avoid having to sell securities prior to maturity in the open market. Interest rate risk can also be limited by investing in shorter term securities.

.2 Maintenance of liquidity

Pursuant to section 31 of the SBFA Act, the University maintains a deposit and withdrawal account for its day-to-day operating transactions which is maintained with a buffer of between \$100K and \$500K. In addition to the balances held in its bank account for routine operating requirements, the investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements of the University, as and when they fall due, without incurring significant transaction costs due to being required to sell an investment.

For these purposes, illiquid investments are defined as investments that are not publicly traded in sufficient volume to facilitate, under most market conditions, prompt sale without severe market price effect.

.3 Return on investments

The portfolio is expected to achieve a market average rate of return and take into account the University's risk tolerance and current interest rates, budget considerations, and the economic cycle. Any additional return target set by the Council will also consider the risk limitations, prudent investment principles and cash flow characteristics identified within the policy.

.4 Comparison of performance

The University should ensure it achieves value-for-money or a competitive price after considering the costs of the investment.

.5 Investment categories

USC's investable funds are to be matched to the liability profile and cash flow (liquidity) needs of the University, and fall within the following categories:

- Short term (under one year)

The objective of the short term component is to ensure there is sufficient liquidity to meet operating expenses (ie daily calls of accounts payable transactions, payroll payments and un-presented cheques), while holding minimal cash in low interest bearing accounts. These investments should be held in cash with QTC or placed in short term cash investments with appropriately rated financial institutions within the approved investment parameters.

- Medium term (one to five years)

The objective of the medium term component is to maintain liquidity to meet the cash demand for operating activities and capital works programs planned to occur within a period of one to five years. These investments should be held in secure financial instruments that are liquid and have negligible chance of loss of capital.

- Long term (above five years)

The objective of the long term component is to improve the financial stability and capacity of the University, to provide strength to the balance sheet and deliver a return in perpetuity which could be reinvested to build a substantial corpus, or be drawn upon to meet specific University funding requirements. This investment category should hold funds for:

- endowment funds
- reserves and sinking funds for new facilities and infrastructure and for major equipment and building replacements
- provisions for employees entitlements and other long term liabilities
- other strategic priorities.

These investments are primarily placed with the approved investment funds manager (QIC) utilising a combination of investment parcels matched to the chosen risk/return requirements of the investment pools such as endowment funds, provisions or sinking funds.

9. Portfolio implementation

.1 Authorised personnel

The Chief Operating Officer is authorised to invest the University's operating funds at their discretion in investments consistent with the policy and legislation. The Chief Operating Officer will report to the Planning and Resources Committee on behalf of the Vice Chancellor and President for investment guidelines and oversight of investment activities for the purposes of the policy.

.2 Planning and Resources Committee

The Planning and Resources Committee will perform the following functions in relation to investment matters on behalf of Council:

- oversee the development and update of the policy and its guidelines;
- recommend to Council modifications to the policy;
- monitor compliance with the Act; and
- review the investment reports by the University.

3 Internal controls

The Chief Operating Officer will establish internal controls and processes that will ensure investment objectives are met and that the investment portfolios are protected from loss, theft or inappropriate use.

The internal controls will address the following:

- control of collusion;
- separate the transaction authority from accounting and record keeping;
- safekeeping;
- avoid physical delivery of securities;
- clearly delegate authority to designated officers;
- confirmation requirements for settlement of securities;
- compliance and oversight of investment parameters; and
- reporting of breaches.

10. Investment parameters

10.1 Investible funds

For the purposes of the policy, investible funds are the investment monies available for investment at any one time and include the University's bank account balance. Included in this balance is any monies held by the University on behalf of external parties (for example, developer contributions). However, the policy does not apply to monies held on trust for third parties where those funds are subject to specific conditions.

The investible funds should match the cash flow needs of the University deemed by the Chief Operating Officer after preparing the University's budget. Once the Chief Operating Officer has determined that the cash flow requirements can be met, funds may be invested for the required term. In this regard, it is appropriate for the Chief Operating Officer to be conservative (i.e. where possible, investments should not be broken to meet cash flow obligations).

It is the responsibility of the Chief Operating Officer to assess the cost of direct investment management by the University relative to the return generated. This should be compared with the cost of investing funds with a capital guaranteed cash fund (for example, the QTC Capital Guaranteed Cash Fund).

10.2 Authorised investments

Without specific approval from Council or the Qld Treasurer, investments are limited to those prescribed by Part 6 of the SBFA Act for statutory bodies with Category 3 investment power, which include:

- interest bearing deposits
- commercial paper
- bank accepted/endorsed bank bills
- bank negotiable certificates of deposit
- short term bonds
- floating rate notes
- QIC Cash Fund, Australian Fixed Interest Fund, Growth Fund, Stable Fund and
- QTC Capital Guaranteed Cash Fund, Debt Offset Facility, Fixed Rate Deposit (up to 3 years) and QTC Working Capital Facility.

10.3 Prohibited investments

The Policy prohibits any investment carried out for speculative purposes. The Chief Operating Officer may include a prohibited investments list within the investment guidelines and approved lists reportable to Planning and Resources Committee.

The following investments are prohibited by this investment policy:

- derivative based instruments (excluding floating rate notes);
- principal only investments or securities that provide potentially nil or negative cash flow;
- stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and
- securities issued in non-Australian dollars.

10.4 Portfolio investment parameters and credit requirements

For investments at call or for a fixed term of not more than one year the University is permitted, under sections 44 and 45 of the SBFA Act, to use investments with a financial institution rating by Standard and Poor's (Australia) Pty Ltd (S&P) of A-1+, A-1, AAm or AAAm.

For investments at call or for a fixed term of greater than one year but not more than three years the University is permitted, under section 45 of the SBFA Act, to use investments with a financial institution rating by S&P of AA, AA+ or AAA.

The following tables show the credit ratings and counterparty limits for the University.

SHORT TERM RATING (S&P)	INSTITUTION LIMIT OF TOTAL PORTFOLIO	MAXIMUM % OF TOTAL PORTFOLIO
QTC/QIC	100%	100%
A-1+	60%	100%
A-1	30%	70%

LONG TERM RATING (S&P)	INSTITUTION LIMIT	MAXIMUM % OF TOTAL PORTFOLIO
QIC	100%	100%
AAA to AA	40%	100%

For the purposes of the University's investment portfolio, the percentage limits apply effective from the date of purchase as a percentage of the market value of the portfolio.

10.5 Approved list

On an annual basis Planning and Resources Committee will endorse, on recommendation from the Chief Operating Officer a list of financial institutions meeting the above requirements to which the University's investments must be confined.

10.6 New investment products

A new investment product requires a full risk assessment by management (including compliance with the SBFA Act) and requires approval by the Planning and Resources Committee.

10.7 Breaches

Any breach of this Investment Policy is to be reported to the Vice-Chancellor and President and rectified within 24 hours of the breach occurring. The Planning and Resources Committee will report the breach to the Council at its next meeting.

Where the University holds an investment that is downgraded below the minimum acceptable rating level, as prescribed under regulation for the investment arrangement,

The University shall within 28 days after the change becomes known, either obtain Treasurer's approval for continuing with the investment arrangement or sell the investment arrangement (including, for example, withdrawing a deposit).

10.8 Safekeeping and custody

Each transaction will require written confirmation by the broker/dealer/bank. The University will hold security documents, or alternatively a third party custodian authorised by the Chief Operating Officer and evidenced by safekeeping receipts, may hold security documents.

10.9 Criteria of authorised dealers and broker

The University will maintain a list of authorised financial institutions and securities brokers that the designated officers may deal with. These financial intermediaries must have a minimum long term rating of at least either A+/A1/A+ from Standard and Poor's, Moody's or Fitch IBCA.

All transactions undertaken on behalf of the investment portfolio of the University will be executed either by the University directly, or through securities brokers registered as Australian Financial Service Licensees (ASIC) with an established sales presence in Australia, or direct issuers that directly issue their own securities which are registered on the University's approved list of brokers/dealers and direct issuers.

10. Investment guidelines

Pursuant to this policy, the Planning and Resources Committee may reduce the maturity limits in this policy to a shorter period, or prescribe higher ratings through their own internal investment guidelines and approved lists.

Approval is required from the Council in relation to investments requiring Treasurer approval, prior to submission to the Treasurer.

11. Reporting

The Chief Financial Officer will document and report the analysis performed to determine which financial institution has the most advantageous rate when benchmarked with Queensland Treasury to evidence the requirements of Division 43 section 47 of the SBFA Act. This analysis report will be recommended to the Chief Operating Officer by the Chief Financial Officer at least quarterly and/or prior to making each investment.

The Chief Operating Officer will prepare a report and evaluation of the transactions, concentrations, performance and compliance of the investment portfolio. The report is to be provided to the Planning and Resources Committee in accordance with the meeting schedule. The report will include:

- analysis of cash investment balances that reports the level of externally restricted, internally restricted and unrestricted balances;
- list of securities held at the end of the reporting period by maturity date/call date;
- weighted average yield to maturity of the portfolio;
- percentage of the portfolio held by investment type; and
- performance of the portfolio.

The Chief Operating Officer will provide an annual report to the Audit and Risk Management Committee on compliance with relevant legislation and this policy. The report is to list securities by issue name, maturity date, par and dollar amount invested.

12. Performance measurement

The investment return for the portfolio shall be measured using the market value of the portfolio, including withdrawals and deposits, and total performance of the portfolio compared to the Consumer Price Index (CPI). This is to include changes in the capital value of assets held (where applicable), income from managed investment portfolio assets, proceeds of sales of assets sold and cost of assets acquired.

The market value of the portfolio is to be calculated to coincide with financial management reporting and the annual financial statements.

13. Review

At the recommendation of the Queensland Audit Office and the Queensland Government Investment Policy Guidelines for Statutory Bodies, the University will review this policy at a minimum of every two years and the policy will be recommended by the Planning and Resources Committee to Council for approval.

The purpose of regularly reviewing this Investment Policy is to reassess the risk associated with changes in the market and the University.

END

RELATED DOCUMENTS

Delegations Framework - Governing Policy
Financial Management Practices - Operational Policy
Staff Code of Conduct - Governing Policy

RELATED LEGISLATION / STANDARDS

Financial Management Practices Manual
University of the Sunshine Coast Act 1998
Financial and Performance Management Standard 2009 (Qld)
Financial Accountability Act 2009 (Qld)
Statutory Bodies Financial Arrangements Act 1982 (Qld)
Statutory Bodies Financial Arrangements Regulation 2007