

The Association of Graduates in Early Childhood Studies would like to acknowledge both the Bunurong/Boon Wurrung, and Wurundjeri people as the Traditional Custodians of the Lands on which we are located in Melbourne. We pay our respects to their Elders past, present and emerging. We also acknowledge the Aboriginal language groups across all of Victoria, whose lands we provide funding for specific projects around Early Childhood Education. We acknowledge their history, their people, and their stories. As an Association we will work together for reconciliation, a process that starts with the acknowledgement of true Aboriginal and Torres Strait Islander histories and cultures of Australia, and will always value the contribution to our community and culture, the experiences of Aboriginal and Torres Strait Islander peoples, their families, communities and their stories.

# Investment Policy

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## 1. Organisation

The Association of Graduates in Early Childhood Studies (AGECS) is a membership-based, not-for-profit charity providing professional development and engaging in communication opportunities for its members and staff working in early childhood services.

## 2. Governance

AGECS Council is the body ultimately responsible for its assets, subject to advice and recommendations from the Finance Committee.

The Finance Committee is authorised to manage the investment portfolio on a discretionary basis in accordance with this policy. Should the Finance Committee determine that a change to the policy is in the best interests of AGECS, it will seek approval from the AGECS Council.

Ongoing contact and urgent matters are to be directed to the authorised signatories being the President, Vice President and Honorary Treasurer.

## 3. Introduction

AGECS income is derived from share dividends, interest and franking credits. AGECS must ensure that its investment strategy and portfolio allocation delivers reliable revenue in order to operate. AGECS takes a long-term view with its investment strategy in order to provide stable income to allow the organisation to meet its charitable purpose.

## 4. Policy objectives

This policy:

- Explains the composition of the investment assets and the distinction between the various pools of capital.
- Provides a central reference point and guidelines for the investment of the portfolios.
- Defines the investment objectives and the criteria against which investment performance will be evaluated.
- Defines the risks involved in achieving the investment objectives and the tolerance for those risks.
- Defines the ethical considerations and constraints that apply to the investment of the portfolios.
- Supports compliance with legal and regulatory requirements.

- Enables a more seamless transition for any newly appointed members of the AGECS Council.

## 5. Finance Committee

A Finance Committee has been established to carry out the investment strategy of AGECS and as directed by the Council.

The Finance Committee:

- 1.1. is accountable to the Council.
- 1.2. comprises the President, Vice-President, Honorary Treasurer, Senior Investment Adviser, Financial Advisor, Program Manager, and Bookkeeper.
- 1.3. is responsible for:
  - setting the annual investment strategy, subject to Council approval, meeting in April following the submission of quarterly BAS lodgment.
  - The asset allocation and investment performance is to be reviewed on a quarterly basis by the Finance Committee. The Senior Investment Adviser is to advise the Finance Committee of the action required. The Finance Committee will then meet to decide, and any alteration should be through a majority vote.
  - providing minutes of meetings to Council.
  - the approval of investment acquisitions and asset disposals on advice from the Senior Investment Adviser. Such decisions are the collective responsibility of the President, Honorary Treasurer, and Financial Advisor. Two of the three responsible individuals must provide written approval of individual transactions.
- 1.4. Sometimes decisions have to be made on specific investments on short notice e.g. buy-backs. The Investment Advisor will advise the President, Honorary Treasurer, and Financial Advisor of the decision required (cc'ing the Program Manager and Book-keeper). In these cases an email exchange between the President, Honorary Treasurer, and Financial Advisor is required.

## 6. Senior Investment Adviser

AGECS recognises the need to engage a professional Senior Investment Adviser to manage the portfolio. The Senior Investment Adviser must adhere to the investment objectives, comply with the ethical framework and remain cognisant of the risks outlined in this policy. In addition, the Senior Investment Adviser and/or their company must:

1. hold an appropriate Australian Financial Services Licence and be complying with the licence as outlined by the Australian Securities & Investment Commission;

2. have an appropriate track record, including a minimum of five years' satisfactory investment performance;
3. be able to demonstrate that they and/or the company is in a sound financial position;
4. have minimum 12 months experience in managing an ethical investment portfolio.
5. provide asset allocation and investment recommendations to ensure timely and informed decisions by the Finance Committee.

## 7. Investment principles and objectives

Good stewardship dictates that the assets entrusted to AGECS must be managed professionally. The principal objective of AGECS's investment strategy is to maximise returns to carry out its vision and mission with due regard to ethics, risk and reward, and its specific needs. Key principles are:

- AGECS views the portfolio as a long-term investment into perpetuity and is prepared to endure a reasonable level of volatility of returns in expectation of long-term growth.
- Preserve and grow the capital value of the portfolio over time.
- To achieve a long-term rate of return in excess of the CPI. It is expected that year-on-year returns might vary.
- To ensure that sufficient liquid assets will be available to meet administration expenses as and when those payments are due to be paid.
- To provide grant opportunities to members and the community as resolved by the Council.

### **Return objectives (both capital and income)**

- Preserve the value of the corpus.
- Total return objective of 5-8% per annum on the market value (or above the ten year average of CPI of 2.5%) to ensure no capital erosion into perpetuity (advice on adequate returns to be taken from the proponents).
- Total return target of \$100,000 per annum.
- Quantum of fees to be assessed within the overall return objectives.

### **Investment approach**

- Diversified portfolio across various major asset classes to manage risk.
- Portfolio exposure could combine passive and active funds to achieve return objectives.

- As a not-for-profit charity, ensure a considered approach to all fees and costs is applied to all investments.
- Status as a not-for-profit should be considered in investment selection in light of concessional tax status.

### **Liquidity requirements**

- A minimum balance is to be maintained in operating accounts to meet short-term administration expenses of \$25,000.
- Investments should be liquid such that 10% available at short notice, i.e. 1 month.

AGECS's assets serve multiple purposes and are therefore divided into two segments with different investment objectives – please see below. Typically, assets prioritise and/or seek a balance across two or three of the following investment objectives:

1. Generate income
2. Preserve capital
3. Preserve capital in real (inflation-adjusted) terms
4. Grow capital

| <b>Portfolio</b> | <b>Purpose</b>   | <b>Investment horizon</b> | <b>Investment objectives</b>   |
|------------------|--|---------------------------|--|
| Investment funds | Fund operating cash flows.<br>Create a perpetual pool of capital with the flexibility to support AGECS's mission | Short and Long            | <ol style="list-style-type: none"> <li>1. Generate income</li> <li>2. Preserve capital in real terms</li> <li>3. Grow capital</li> </ol> |

### **Portfolio parameters**

#### **Benchmarks**

| <b>Asset class</b>       | <b>Benchmark</b>   |
|--------------------------|--|
| Australian equities      | S&P / ASX 200  |
| International equities   | MSWA Acc Index in Australian dollars.                                      |
| Listed property trusts   | S&P / ASX AREIT Accumulation Index   |
| Interest Rate Securities | A combination of 50% SCP03 0 to 3 year bond index and 50% SBCBB cash index |
| Cash                     | Bloomberg Bank Bill Index SBCBB  |

Should a material redemption be made from one or more portfolios necessitating a change in portfolio parameters, the appointed Senior Investment Adviser will propose appropriate changes and seek approval for the changes from the Finance Committee.

## 8. Investment beliefs

AGECS holds the following investment beliefs:

- Simplicity is preferable to complexity.
- A balanced and diversified portfolio is the most sensible approach to managing risk and preserving capital over the long term.
- Strategic asset allocation is the dominant factor driving risk and returns in a portfolio. An Asset allocation structure is a way of reducing risk, as it provides parameters within which to work i.e. ranges dependent on a bullish/bearish/neutral view of each asset class.
- Asset market returns are unpredictable and will inevitably be within a broad range.
- Equity markets offer access to long-term capital growth and strong and relatively consistent income streams, particularly when franking credits are included. Equities provide a growing income stream; interest rate securities is dependent solely on the direction of interest rates.
- Equity markets can be volatile but typically recover capital losses over the subsequent three to ten years.
- Volatility is an acceptable price to pay for perpetual capital seeking long-term growth.
- Investments should be limited to assets and strategies that are understood and are liquid.

## 9. Ethical framework

The Senior Investment Adviser must manage the portfolios to comply with the ethical investment principles of AGECS. In particular, the policy adopts negative screens.

### **Negative Screening**

AGECS avoids investing in companies whose products, services or practices cause or perpetuate injustice and suffering, infringe human rights or cause unacceptable damage to the natural environment. Prohibited companies include those with primary operations within industries such as:

- Armaments
- Alcohol production
- Tobacco
- Uranium
- Thermal coal
- manufacturing
- Gambling
- Pornography

- Unconventional oil and gas

### ***Ethical, Social and Governance (ESG) and Sustainability***

AGECS has a preference for Impact and Sustainable investment within its portfolio assets. It aims to invest in organisations with a strong focus and explicitly report on Environmental, Social, and Governance (ESG) and Sustainability initiatives within their organisation.

AGECS considers the following sustainability principles when considering its investments:

- Organisations that deliver financial returns to achieve AGECS operational requirements
- Organisations that are assessed to perform better than their peers in carrying out their ESG and Sustainability initiatives (as measured by an external benchmark or ESG rating agency)
- Organisations that contribute to solutions by investing in and supporting positive outcomes for people and/or the planet. This includes climate-positive investments that assist in driving the economy's transition towards net-zero emissions.
- Organisations that support and/or adopt human rights and modern slavery principles such as those outlined in the Modern Slavery Act 2018.
- Organisations that are transparent with regards to sustainability performance. Such as those that report against globally accepted ESG frameworks, i.e. United Nations Sustainable Development Goals, GRI Standards, TFCDD and/or SASB Standards.
- Organisations that contribute to and report on gender equality. Such as those that report to and are measured via the Bloomberg Gender-Equality Index.
- Organisations with leadership committed to diversity, gender equity and inclusion.
- Organisations that execute shareholder's rights and fulfil their fiduciary duties.

While AGECS considers the above principles in identifying investments, it also recognises practical limitations that may inhibit some of the above areas. This includes indirect control of third party managers and data limitations with regards to some markets and investments.

## 10. Risk tolerance

AGECS recognises that investment involves complexity and uncertainty and acknowledges that some investment risk must be assumed to achieve short and long-term investment objectives.

| <b>Risk</b>        | <b>Impact</b>   | <b>Tolerance</b>  |
|--------------------|---|---|
| <b>Income</b>      | Inability to meet income needs  | Zero – required income to be advised by AGECS   |
| <b>Illiquidity</b> | Inability to drawdown on portfolio when required  | Zero – to be aligned with budgeted income requirement with operational cash flow underpinned by working capital portfolio   |
| <b>Strategy</b>    | Failure to meet stated investment objectives through use of inappropriate investment strategy                             | Adoption of investment policy tested against historical market data.  |
| <b>Leverage</b>    | Potentially intensified gains but also losses   | No leverage to be employed in portfolios  |
| <b>Market</b>      | Volatility in the value of assets   | Portfolios to be designed to limit expected frequency of negative return (1 in 5) and potential peak to trough drawdown in extreme markets in line with portfolio investment objectives |
| <b>Currency</b>    | Gains or losses on assets or securities denominated in foreign currencies   | Limited to international equity market exposures  |
| <b>Operational</b> | Economic or reputational loss arising from fraud, theft, breaches of delegated authority, inadequate systems, human error | Appointment of licenced professional investment manager using appropriate third-party custodial arrangements  |

## 11. Permitted investments

Investments in the asset classes listed below are permitted.

|                            |   |
|----------------------------|---|
| <b>Australian equities</b> | Equities listed on the Australian Securities Exchange, Australian equity ETFs and Australian equity MISs and listed investment companies. |
| <b>Cash</b>                | Cash, term deposits < 12 months, investments with Australian banks and deposit-taking institutions and cash management trusts             |



|  |  |
|--|--|
| <b>Diversified income</b>              | A medium-risk investment strategy offered by the investment manager investing in a diversified portfolio of income assets with an investment horizon of 3 to 5 years   |
| <b>Exchange Traded Funds (ETF)</b>     | Funds that trade like a common stock on a stock exchange and usually represent a basket of assets that track an index, a sector or an asset class  |
| <b>Interest Rate Securities</b>        | Government and corporate bonds, fixed and floating rate notes, asset-backed securities, mortgages and mortgage-backed securities, impact loans, preference shares, hybrid securities, convertible securities and fixed income MISs |
| <b>International equities</b>          | Equities listed on international securities exchanges in both developed and emerging countries, international equity ETFs and international equity MISs  |
| <b>Managed investment scheme (MIS)</b> | A scheme that enables a group of investors to pool money typically to obtain exposure to a specific asset class or sector and managed by a professional and licensed investment manager  |

## 12. Reporting

A portfolio valuation report will be provided on a monthly basis by the Senior Investment Adviser.

A performance report will be provided for each portfolio by the Senior Investment Adviser on a twice-yearly basis following the June and December quarters. The report will include:

- a detailed market update
- a detailed breakdown and profile of returns
- performance data for the total portfolio on a 1-year, 3-year, and 5-year financial year basis.

## 13. Policy review

This policy will be reviewed by the Finance Committee at its first meeting each financial year. If changes are proposed, the amended policy must be submitted to the Council for approval.

Any decision to alter the Investment Policy will be made through the Finance Committee's majority recommendation and adoption by Council at its next meeting or by circular resolution.

*For questions about this policy, contact the President*

|                     |               |                         |                        |
|---------------------|---------------|-------------------------|------------------------|
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