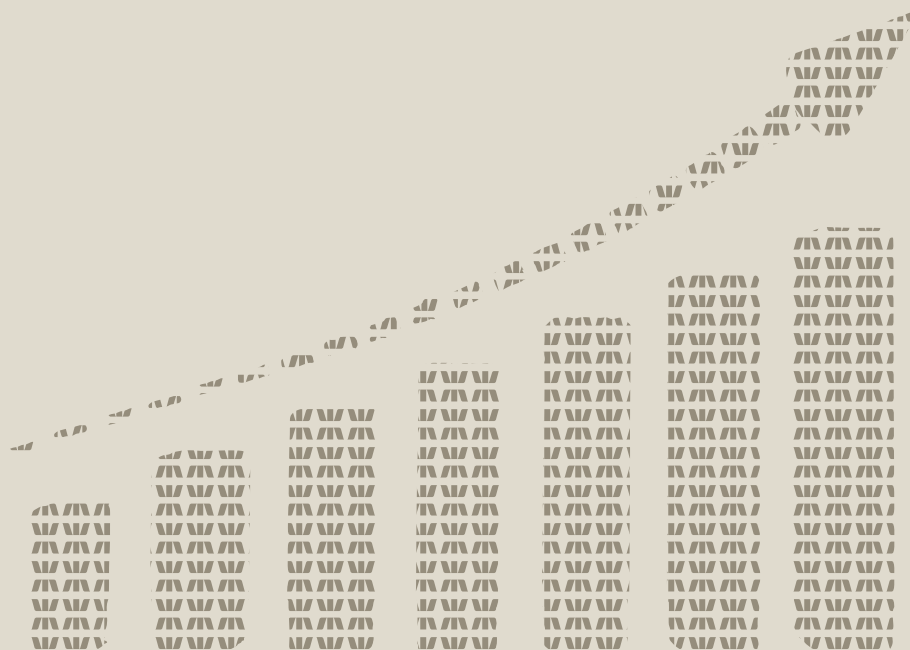


Guide to Investing Money for Community Organisations.



Contents.

Contents.	1
The Guide for Community series.	2
Introduction: Making every cent count.	3
A note on terms.	4
Understanding the basics.	5
What is investing & why is it relevant for not-for-profit organisations?	5
Why invest?	6
Choosing where to invest.	8
What are asset classes?	8
Cash	9
Bonds (Australian & International Fixed Income)	10
Property (Australian & International)	12
Shares (Australian & International)	12
The choice is yours	14
Things to consider before you dive in.	15
Diversification	15
Asset allocation	15
Fees	17
Active vs passive investment	17
Ways to invest	18
Performance benchmarks	18
Selecting an adviser	19
Putting it all together	20
Investment sub-committees.	21
Responsibilities	21
Investment Policy Statement (IPS)	21
External advisers, consultants and managers	21
Review and monitoring procedures	22
Termination	22
Sub-committee members	23
Investment Policy Statements.	24
Purpose of the Investment Policy Statement	24
Investment objectives	24
Asset allocation	24
Investment diversification	25
Constraints	25
Ethical investment	25
Implementation	26
Performance benchmarks	26
Sample Investment Policy Statements.	27
Small organisation: PQR Inc.	27
Medium organisation: Variety, the Children's Charity	29
Large organisation: The Good Foundation	31
Glossary.	32
Community Banking Solutions for not-for-profit organisations.	34

The Guide for Community series.

This guide is the third in a series designed to help build the financial capacity of Australia's 600,000 community groups and not-for-profit organisations, which are absolutely vital in the development of a thriving and vibrant Australia.

Together with its companion volumes, the *Guide for Community Treasurers* and *Understanding Finances: A Guide for Community Board Members*, this guide is part of ongoing work by Our Community and Westpac to make sure this important sector has ready access to the information it needs to operate effectively in our complex and changing financial environment.

For more information about the partnership visit www.ourcommunity.com.au/finance

Our Community.

More than 65% of Australians belong to one or more of the 600,000 community groups that exist in this country. Our Community assists community groups to meet the challenges they face by providing practical advice, tools and training.

Our major offerings include:

- www.ourcommunity.com.au – comprising 16 online Knowledge Centres and publishing house
- GivNow.com.au – helping individuals and businesses give more, give smarter, give better, Give Now!
- Australian Institute for Community Practice and Governance – practical and accessible certificated training delivered locally through our training institute
- Australian Institute of Grants Management – the unique suite of grants management services, including the groundbreaking online grants management system, SmartyGrants
- Australian Institute for Corporate Responsibility – cutting edge corporate responsibility resources for large, medium and small business and community organisations

Westpac Social Sector Banking.

At Westpac, we've been working with community organisations of all sizes for many years – and whether it be local sports clubs, schools or national aged care facilities, we've learned that the demands and opportunities of the not-for-profit sector are both unique and diverse.

We offer more than just banking. We are committed to:

- understanding our community customers' unique day-to-day financial workings and requirements
- designing and innovating our products and services to align with the needs of the social sector
- providing specialist bankers and financial advisers, who are specifically trained to service the not-for-profit sector
- connecting our customers with financial education, training, resources and other areas beyond just banking that will help strengthen their organisation and achieve long-term visions.

We want to provide the community and not-for-profit sector with the most beneficial banking partnership in Australia.

For more information visit www.westpac.com.au/socialsectorbanking

Introduction: Making every cent count.

Not-for-profit organisations exist for a number of reasons. Some want to improve the environment, some want to conserve a historical element of their community, some want to connect people with a common interest, and some want to help those most in need.

Although on the surface these organisations can appear to have similar operations to for-profit businesses – they may employ staff at similar levels, use products and services just as businesses do, and are subject to many of the same laws and regulations that businesses are subject to – they are remarkably different.

While for-profit organisations exist to turn a profit, not-for-profits work to contribute something to society. That means they have different purposes, operate under different pressures, have different cultures and serve a different group of stakeholders.

But that doesn't mean that not-for-profits can't (or shouldn't) generate surplus funds – quite the contrary. All organisations have to raise income if they are to be able to fund their activities in the community – after all, they also need to pay staff, rent offices, provide mail-outs or newsletters, and pay phone and electricity bills.

A not-for-profit organisation's social mission makes it all the more important to squeeze every ounce of value out of every dollar raised. They need to make sure any spare cash is put to work as hard as possible in a way most likely to maximise the funds they have.

Investing idle funds can be a fantastic way to maximise cash flow. Investment, however, is a concept many not-for-profit organisations shy away from, and there are three very good reasons for this: (1) because few organisations think they have enough money in the bank to bother thinking about investments; (2) because when they do have money, most groups want to spend it; and (3) because all investments, by their nature, involve some element of risk.

That's not to say that not-for-profits should shy away from investment. In fact, the opposite is true.

This Guide aims to help you understand when and how your organisation might consider pursuing investments and what your options might be – what the different types of investments are, what risks are involved in each, and how you can use your newfound knowledge to increase your not-for-profit's funds.

Specifically it has been written for Board and senior staff members of not-for-profit organisations to help you understand the options; investment managers and investment sub-committee members should have or seek more in depth knowledge.

“Understanding the dos and don'ts of an investment strategy is essential for any not-for-profit organisation, especially when it could mean finding extra funds to support your cause outside of your donors. By recognising the role that investments have in your not-for-profit organisation, you will be more informed when making financial decisions.”

Julienne Price, Head of Westpac Social Sector Banking.

A note on terms.

The not-for-profit sector operates in all Australian states and has to cope with a number of different legal formats. The result is that there are a number of terms used for things that essentially mean much the same thing. To make life easier, in this Guide we've used one set of names.

When we say	'Board'	we mean	'Board' <i>or</i> 'Council' <i>or</i> 'Committee of Management'
When we say	'not-for-profit sector'	we mean	'social sector' <i>or</i> 'nonprofit sector' <i>or</i> 'community sector' <i>or</i> 'third sector' <i>or</i> 'voluntary sector'
When we say	'not-for-profit organisation'	we mean	'Incorporated Association' <i>or</i> 'Company Limited by Guarantee' <i>or</i> 'Cooperative'
When we say	'Board member'	we mean	'Board member' <i>or</i> 'Committee member' <i>or</i> 'Trustee' <i>or</i> 'Director'
When we say	'Chief Executive Officer (CEO)'	we mean	'CEO' <i>or</i> 'Director' <i>or</i> 'Manager' <i>or</i> 'Executive Officer'
When we say	'clients'	we mean	'clients' <i>or</i> 'customers' <i>or</i> 'users' <i>or</i> 'consumers' <i>or</i> 'members'

However there's also a handy glossary at the end of this Guide if you need more technical explanations.

Understanding the basics.

What is investing and why is it relevant for not-for-profit organisations?

Not-for-profit organisations invest their money for several reasons, or for a combination of these reasons.

1. To keep it safe and protected

If you don't need all your money right now, but know you'll need it later, you want to put it somewhere that will not only keep the principal safe but will preserve its value. You also want to ensure your money keeps track with inflation by getting back a little more than you put in.

2. To generate an income

If your organisation is spending its money on doing good, every dollar that you can earn from interest income is a dollar you don't have to rattle the tin for.

3. To increase it

If you don't need your money right now, and are prepared to do without it until later on, you can look for an investment that will grow to more than you put in.

Most not-for-profits tend to concentrate their efforts on keeping money safe. Good causes need to be addressed today, if not sooner, so most groups will want to put every cent they have into the work that they do.

However, many not-for-profits have significant amounts of money to invest when:

- **They receive a grant**

A funder generally writes a cheque for the whole amount, and the not-for-profit organisation then spends the money down over time. If you get a grant to hire a staff member for a year, for example, it will be 50 weeks into the year before you make the last payment from that fund – 50 weeks when that money could be earning income.

- **They want to build or develop**

When an organisation is running a capital appeal to build a new hall or a library or headquarters, it works the other way – the money builds up over time towards the level you need, and then goes out in a lump.

- **They have a float or buffer**

Organisations that have a lot going on like to have a couple of months' worth of reserve – something to smooth out cash flow, something to carry them over sudden gaps in the funding stream. These amounts, too, can be used to squeeze out more income.

- **They have a corpus of funds**

Some organisations have a historical corpus of funds on their asset base that can be invested. These funds are often generated through bequests and other large donations and help to ensure the organisation has longevity through continual re-investment of the funds year on year.

Circumstances will vary, of course – some not-for-profits have very large endowments, enough to cover a good part of their expenses, and other not-for-profits exist to distribute money to others through grants so have very large reserves – but for some organisations an investment will be limited and comparatively short-term. It's important however, to understand all your options so that if the opportunity arises to put your funds to work, you are able to make the most sensible decision for your organisation now and for the future.

Part of being informed is ensuring your Board is financially aware. A financially aware Board will look at a variety of investment types, or **asset classes**, including secure cash investments (e.g. savings accounts and term deposits), property, shares or bonds. There's also the option of investing via **managed funds** which allow you to invest your money in a variety of asset classes by having a professional fund manager

Did you know?

If your organisation invested \$1,000 in cash attracting 5.5% pa, it would take about 13 years to double.

Had you decided to invest in Australian shares, your organisation could have potentially earned 9.1% pa on your initial investment and doubled your money in approximately 5 years.

** Based on annualised returns of the UBS Bank Bill index over 13 years (5.5% pa) and the annualised returns of the ASX 200 (including dividend) over 13 years (9.1% pa). The ASX 200 is an index that tracks the performance of the 200 largest publicly listed companies on the Australian Stock Exchange.*

pool your money with those of other individuals, businesses or organisations and make decisions daily on how your funds are best placed to maximise returns.

Not-for-profit and community organisations are, generally speaking, more cautious investors than traditional profit-generating businesses. And so they should be. Board members need to weigh up the risks of investments going wrong, eroding rather than building on funds which would otherwise have been employed to further a cause, and potentially seriously damaging funder and donor trust.

As a not-for-profit, you need to ensure you completely understand the possible risks and returns of each asset class before you decide to invest in them.

Why invest

Whilst investing has the potential to provide good returns for your organisation, investing in general can be a complicated affair. Even an investor with many years experience risks making the wrong decision and losing money. That's because the investment market can be extremely volatile – especially when profit maximisation is the priority.

Making sound investment decisions becomes even more important for not-for-profit organisations because every cent counts. But with a little bit of knowledge, some risk minimisation strategies, and a realistic long-term investment plan, the potential for developing a healthy profit can become a reality.

Cash investments

Most not-for-profit organisations are familiar with high-interest savings accounts and term deposits. They are the most popular types of investments with not-for-profit organisations.

Both are basic, cash type investments, which provide a relatively low return for low, or no, risk.

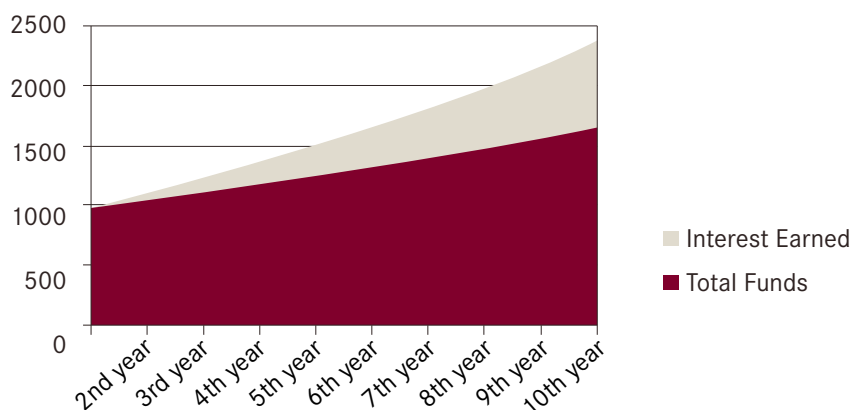
Term deposits and high-interest savings accounts provide a return based on the concept of **compound interest**, whereby you earn interest on interest in order to multiply the funds available in your account.

For example:

Let's assume your group had \$1,000 cash in a savings account earning 6% a year. Your \$1,000 grows to \$1,060 after one year, and \$1,123.60 after two. The extra \$3.60 comes from compound interest – interest on the interest. And although it may seem a small amount in this case, if you think about larger investment amounts, and longer investment terms, and even changes in investment rates, the concept of compound interest becomes more impactful. A small change in the interest rate, in particular, can provide a significant difference in returns over time.

Table 1 provides information on how money grows over time, given the annual rate of compounding interest.

Table 1: Compound Interest



Tip

Make sure you have the investment skills and knowledge you need on your Board.

Surveying your options

Cash investments such as term deposits and savings accounts, however, are not your only option. Your aim is to maximise the **returns** on any investment you make.

Of course, there is no free lunch when it comes to investing. Higher returns are usually associated with higher **risk**, so your Board will need to decide how much risk the organisation is willing to put up with in order to have the potential of higher gains.

Another, rather less dramatic consideration, is **liquidity** – how readily your investment can be converted into cash without compromising the value of the investment. As an example, cash is considered more liquid than property because you can usually get your hands on your cash quickly but it may take several months to sell a property at fair value.

Every organisation has different risk tolerances, return objectives, and liquidity needs. As a not-for-profit organisation, you are no different. The organisation's investment path will need to be set down by your management team and the Board.

If the Board has little understanding about investing, then the organisation is likely to suffer. Understanding what investments are available and the unique characteristics of each will help you to achieve your immediate funding needs and maximise the returns on your investments.

Choosing where to invest.

Where you decide to allocate your organisation's funds is important. Each investment class possesses its own unique set of risks and returns, so the key to a solid long-term and successful investment strategy is selecting the right type and mix of investments.

Did you know?

Academic studies have shown that 90% of an investor's returns are determined by how you decide to divide up your investment dollars – i.e. where (cash versus bonds versus property versus shares) you choose to place each percentage of your total invested amount.

When investment guru Warren Buffett was asked what the secret to his investment success had been over the years, he said it was sticking to his “circle of competence”.

Of course, very few people have the same insight and knowledge as Warren Buffet, but certainly broadening your Board's “circle of competence” when it comes to investing is a diligent approach to deciding what types of investments are most suitable.

What are asset classes?

Asset classes are essentially different categories of financial securities – or *types of investments*. They include cash, shares, bonds, and property. We can further subdivide these into international, domestic, direct investment, and indirect investment.

The returns expected from each asset class depend on their risk characteristics. By ‘risk’ we mean the tendency for the actual investment return to differ from the *expected* investment return. Naturally, people would only invest in a riskier asset if the expected returns were higher.

The graph below highlights where each asset class sits on the risk/return spectrum relative to the others. Cash investments, as you can see, hold very little risk, but offer a relatively low rate of return. The share market, on the other hand, can offer some great profit-making opportunities, but the risks are much higher.

Risk vs Return



Understanding these risks allows us to examine the different characteristics of each investment class. Next we go through the options one by one.

Understanding credit ratings

Credit ratings, determined by agencies such as Moody's, Standard & Poor's and Fitch, provide a guide as to how strong the capital, liquidity and funding positions of a particular financial institution are. AA rated financial institutions (such as Westpac) are deemed to be more financially secure and are less risky when compared to financial institutions that are A rated or below.

What does this mean for you?

Westpac will offer your organisation interest rates comparable with other financial institutions that have an AA rating or above. Financial institutions rated A and below may offer your group higher interest, but remember to weigh up the increased risk that this investment may attract.

Cash

Low risk

Low expected return

Cash investments are considered among the safest investment class. The variety of options available to investors when seeking to invest in cash include term deposits, savings accounts, cash management trusts, and managed funds that invest in the short-term money markets.

Term deposits, as described above, are basic savings accounts where an interest rate is guaranteed not to change for a nominated term based on a fixed amount of funds. This means you will know exactly what your investment will be worth at the end of the term before you even begin. For not-for-profits organisations, there are upsides and downsides to term deposits.

Whilst term deposits will give you surety in investment outcome and will allow you to plan in advance to use any income generated, they tend to have lower interest rates than variable savings accounts. They also lock your money in for a prescribed period of time – you will be charged if you want to withdraw funds early or deposit extra funds into the account.

Savings accounts are often seen as a more liquid alternative to term deposits as they allow you to move money in and out without the need to 'lock money in'. Sometimes they have a slightly higher interest rate than term deposits with a shorter term, particularly when no withdrawals are made in a month and funds are only accessed online, however they are vulnerable to falling interest rates. That means that if the Reserve Bank of Australia lowers interest rates you will find that your earned interest will probably fall, whereas with a term deposit your interest would have remained stable until maturity.

The key to choosing between a term deposit and a savings account is looking at (a) whether your organisation requires a fixed return and (b) whether the amount you are going to invest is set or not. If you do require a fixed return without the need to invest more, a term deposit is your best option. However, if you are flexible and can risk the fixed return in order to potentially make more off of a higher interest rate, and/or you want the ability to access your money regularly, a savings account is probably best for you.

There are other cash options as well. Cash Management Trusts and Managed Funds are on-call investment funds which pool your money with others to facilitate the investment of your organisation's cash into government guaranteed and backed securities. These types of investments usually yield comparable returns to other cash investments but like savings accounts, cannot guarantee interest returns.

Historically, cash investments provide the lowest return over time, when compared with other investment types. This is, of course, offset by cash being the least volatile asset class, with very high liquidity and easy accessibility.

Returns are based on the official cash rate published by the Reserve Bank of Australia. This rate is adjusted periodically to influence the rate of economic growth in Australia and to control inflation.

Cash investments returned 6.8% pa on average over the last 20 years to December 2010.

Bonds (Australian & International fixed income)

Low risk

Low expected return

When a company or government entity wants to raise funds to expand or finance new projects they sometimes use bonds. These are also known as fixed-interest or fixed-income securities.

Bonds are effectively 'IOUs' in which an investor agrees to loan money to the issuer in exchange for a pre-determined interest rate return delivered on a pre-set date in the future, known as the maturity date. The recommended investment horizon is between 3 to 5 years.

This type of investment can either be issued by governments or corporations. Such investments typically provide a higher rate of return than cash because they have longer maturity dates, are less liquid than cash, are subject to a fluctuating market price, and are higher risk.

Bonds issued by different corporations or government entities differ in returns. This is because each issuer has differing credit 'risk characteristics', by which we mean the probability of defaulting, i.e. being unable to pay its debt and obligations as they fall due.

Investors demand higher returns from weaker corporations than bonds issued by the Commonwealth of Australia because Commonwealth bonds are considered to have little risk of default.

However, even bonds issued by the Commonwealth Government are not risk-free unless held to maturity. If a bond was to be sold before the maturity date it might be worth more or less, depending on the market price at the time.

Generally, if you sell a bond before its maturity date and the interest rate has fallen, the bond provides a greater return. Conversely, if you sell a bond before its maturity date and the interest rate has risen, the bond will be worth less. The longer the maturity of the bond, the greater the movement in value.

Bonds can perform better at different times of the economic cycle, so they can help you diversify your portfolio. Bonds are generally regarded as a lower-risk asset class investment than shares or property.

There are many different types of bonds, including asset-backed bonds, government bonds, inflation-linked bonds and corporate bonds. But typically, not-for-profit organisations restrict investment in bonds to those that are 'investment grade' and above.

When considering international bond funds and Australian bond funds, there is an additional dimension of risk that needs to be considered. As the returns from an international bond fund are taken out in foreign currencies, there is an element of exchange rate risk that will impact on the return on investment. Therefore, if the currency of the country you took the bond out from falls in value against the Australian dollar, you will be vulnerable to fluctuating values when converted back into Australian dollars.

How do you know which bond to choose?

If you decide to invest some or all of your organisation's funds in bonds, you will need to research the type of bonds that will suit your organisation's objectives.

Some of the work has been done for you by credit rating agencies, such as Moody's, Standard & Poor's and Fitch. These agencies often rate the different types of bonds to assist investors in determining the credit risk involved. **Table 2** shows the different ratings categories as determined by credit rating agencies.

Table 2: Credit ratings for bonds

Description	Moody's	Standard & Poor's	Fitch
Highest Quality	Aaa	AAA	AAA
	Aa1	AA+	AA+
High Quality	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
Upper Medium Grade	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
Medium Grade	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Speculative Grade	Ba1 and below	BB+ and below	BB+ and below

Rating differences explained

Typically, the difference in returns between AAA and BBB rated bonds has been 1%, with the lower-grade bonds yielding higher returns, though this number has widened during times of economic downturn. In terms of the potential range, in 1932 the American bond markets recorded a difference of 5.65% on average between AAA and BBB rated bonds. The lowest spread on record in US bond markets occurred in 1966, with a 0.32% difference.

Australian bonds have provided an average return of 9.2% pa and International bonds have returned 9.6% pa on average over the 20 years leading to December 2010.

Property (Australian & International)

Moderate risk

Moderate expected return

Property investments encompass a whole range of sectors, including residential, commercial, retail, hotels and industrial. These investments include both land and any facilities on it; for example, office buildings, shopping centres, hotels and resorts, farms and industrial complexes.

Investors are able to gain exposure to property through **direct property investments, unlisted property trusts, and listed property trusts.**

Buying a residential or commercial property to rent out is a way of *investing directly* in property and earning a regular income, though this can be capital intensive and there is a risk that you may have periods without a tenant.

In an *unlisted property trust*, an investor can purchase units in a trust that purchases properties on behalf of investors. This usually allows investors to gain exposure to a broad range of investments without restrictive minimum investment amounts.

An Australian *listed property trust* is an investment that is listed on the Australian Stock Exchange and provides exposure to a portfolio of direct property investments. These are more liquid than unlisted property trusts, but can be more volatile. In the short to medium term, the value of listed property trusts tends to fluctuate with the movement in the share market.

Both types of trusts (listed and unlisted) are able to borrow money as part of the trust structure to purchase properties. The distributions and returns to investors are made after borrowing costs have been deducted. At the same time, certain borrowing costs and depreciation can be used to provide tax-deferred income to investors and allow for interest rate deductions to be claimed. Naturally, the level of debt used in the trust affects the riskiness of the investment.

Property securities primarily earn income from rent and the capital appreciation of the land and property. This is considered a long-term investment, with higher risk than fixed income but lower than shares. The investment timeframe for property is typically 5+ years.

Australian listed property has provided an average return of 9.8% p.a. for the 20 years leading to June 2008.

Shares (Australian & International)

High risk

High expected return

Shares, also known as **equities**, represent a part ownership of a company. You can invest in international and Australian shares.

The returns available from shares come by way of **dividends** and **capital gains**.

Dividends are payments made by companies to their shareholders, and are normally paid twice a year. Remember, though, that companies actually have no obligation to pay a dividend, and may instead decide to reinvest their profits.

In certain cases, these dividends have **franking credits** attached, which are effectively the equivalent of a tax refund provided by the Australian Tax Office (ATO) to shareholders for the income tax an Australian company has already paid. Not all dividends have franking credits attached.

Note that many not-for-profit organisations are exempt from income tax so the franked component of the dividend will be fully refundable.

Understanding tax

Whilst we have touched lightly on issues regarding tax and investment for not-for-profit organisations, tax law is outside the scope of information covered in this guide. If you wish to find out more about tax and how it impacts on your organisation, visit the Australian Tax Office website at <http://www.ato.gov.au/nonprofit/>

Table 3 shows an example of this franking credit system, known as **dividend imputation**.

Table 3: Taxation of dividends

Company pre-tax income	\$100
Corporate Taxes (30%)	\$30
After-tax income	\$70
Assuming 100% payout of profits	
Dividends	\$70
Investor tax rate	0%
Franking credit (for corporate payment)	\$30
Tax due from Investor	\$0
Total after-tax income for investor	\$100

Capital gains occur when the price of a share or asset rises above the purchase price. The share price is influenced by many factors. These include, but are not limited to, things like expectations of the future profitability of the company, the economic outlook, investor sentiment (defined as the *tendency for the market to move up or down over a set period of time*), inflation rates and interest rates.

Share prices constantly fluctuate – sometimes sharply – and the economy will have its ups and down. Over time, however, the profitability of Australian companies has increased, with Australian shares returning 9.9% p.a. and international shares returning 6.5% p.a. on average for the 20 years leading to December 2010.

Shares are considered a growth asset and long-term investment. The recommended investment horizon is 7+ years in order to balance out the risks associated with investing in the very dynamic share market.

Table 4 lists the historical returns from shares from both domestic and international markets.

Table 4: Average compounded returns

Country	Return
Australia	9.9%
Canada	6.3%
Germany	7.0%
Japan	-6.5%
Switzerland	6.6%
United Kingdom	4.6%
United States	6.6%

From 1990-2010

Choosing where to invest.

The choice is yours

Whichever type of investment, or mix of investments, you choose there will always be years where performance is good and others where performance is poor.

By selecting the right mix of investments (and by maintaining your strategy over a longer timeframe) you can minimise the impact of the years of poorer performance.

Table 5 reveals a snapshot of the performance of each different asset class over the past 15 years, indicating which asset performed best in each individual year. These figures further emphasise the benefit of having a good mix of asset classes in any investment strategy you decide upon.

Table 5: Short-term asset class performance

1-year rolling returns to 30 June 2009 (%)

Best performing asset class for the year

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Australian cash	5.48	6.99	6.21	5.80	5.56	5.11	4.91	4.77	6.36	5.24	5.09	5.41	7.14	7.89	6.21	5.08
Australian bonds	10.82	4.29	3.70	6.74	4.80	4.17	10.09	2.35	11.82	1.79	6.65	15.68	12.56	12.80	2.37	6.00
Australian property	-42.27	-24.16	28.62	18.48	19.97	13.94	13.84	17.38	13.03	2.91	4.26	28.76	19.95	4.71	1.82	17.38
Australian shares	-18.56	-7.21	22.03	30.22	25.40	23.83	-11.93	12.42	3.48	14.25	10.86	17.51	13.62	20.92	-2.33	23.13
International bonds	9.96	8.01	6.38	4.85	6.82	7.66	13.38	5.73	10.83	1.66	8.43	12.55	10.01	14.58	5.55	5.83
International shares	-16.24	-14.56	1.47	27.96	8.80	13.74	-33.38	-12.67	-7.05	27.06	18.40	56.60	9.13	12.51	4.56	14.05

Source: UBS Bank Bill 0+ Years, S&P/ASX 200 Accumulation Index, MSCI World ex-Australia (net dividends) Standard in A\$, S&P/ASX 300 Property Index, UBS Composite 0+ years index, Lehman Brothers Global Aggregate Hedged in AUD. You need to distinguish between operating and capital expenditure.

Things to consider before you dive in.

There are several key principles and risks that need to be considered before any investment strategy is undertaken. This section provides an outline of these to help you make the best decisions on behalf of your organisation.

Diversification

Different types of investments tend to follow different trends, so having all your assets in one class exposes you to greater fluctuations in value as the market rises and falls.

Diversification means spreading your risk across a range of investment types. This allows your organisation to take on less overall risk than if you invested in one investment type alone.

In short, a diversified investment strategy will help you to manage risk without sacrificing returns.

But how does it all work?

Diversification can be within an asset class and/or among different asset classes. For instance, you can buy shares from Australian as well as overseas companies, or from different types of companies within Australia, or you could invest in a variety of shares, as well as property, bonds, and cash.

An organisation that spreads its investment funds across a number of different investment types will have less risk of suffering a big drop in the value of their investment at once as it's less likely that all investment types will all drop at once.

Asset allocation

History shows us that about 90% of the return on investment is determined by **asset allocation** – where and how you choose to split investment amounts into different investment categories (e.g. 30% cash, 70% Australian shares). However, asset allocations are in turn determined by your organisation's comfort with risk and your desire for profit. It follows that your risk and return objectives are what will determine the appropriate asset allocation for your organisation.

As a starting point, **Tables 6 and 7** contain some suggestions of possible asset allocation weightings based on different levels of risk (conservative, balanced, growth). They have been taken from Vanguard Investments, Fidelity Investments and T. Rowe Price, which are leading investment fund companies.

Things to consider before you dive in.

Table 6: Asset allocation suggestions

Vanguard	Cash / Short-Term	Bonds	Stocks
Conservative	40%	30%	30%
Balanced	20%	30%	50%
Growth	5%	25%	70%
High Growth	0%	10%	90%
Fidelity	Cash / Short-Term	Bonds	Stocks
Short-Term	100%	0%	0%
Conservative	30%	50%	20%
Balanced	10%	40%	50%
Growth	5%	25%	70%
Aggressive Growth	0%	15%	85%
Most Aggressive	0%	0%	100%

Table 7: T. Rowe Price Matrix

		Time Horizon		
		3-5 Years	6-10 Years	11+ Years
Risk Tolerance	Higher	20% cash 30% bonds 40% stocks	10% cash 30% bonds 60% stocks	100% stocks
	Moderate	30% cash 50% bonds 20% stocks	20% cash 40% bonds 40% stocks	20% bonds 80% stocks
	Lower	100% cash	30% cash 50% bonds 20% stocks	10% cash 30% bonds 60% stocks

Fees

Fees have an important effect on your ultimate investment return. The more you pay in fees, the less your profit will be at the end of your investment term. However, you will need to consider the added advice and support that a fee-for-service model can provide you.

There are many types of fees, but some of them include:

- Entry or establishment fees – payable when you first open an account
- Contribution fee – payable when you make subsequent investments into your account
- Withdrawal fee – payable when you make withdrawals from your account
- Exit or termination fee – payable when you terminate your account
- Ongoing fees – payable each year you are invested in the fund; typically covers administration costs of the fund
- Switching fees – payable when you switch your account to another fund within the same firm
- Adviser trailing commission – when your financial adviser refers you to an investment opportunity, they typically are paid either an upfront referral fee or ongoing fee.

Most investments have some sort of fee attached to them, and as you would expect, fees are often reflective of the amount of work required by an external investment provider.

Of course, your organisation might be comfortable taking more of an active role in managing your own investments, thus potentially minimising your fees, but most groups will choose to pay someone with more investment expertise to do that for you. In any case, you can expect to pay some fees for your investments. Make sure you have a clear picture of all the fees your organisation will be liable to pay before you make any commitments.

Active vs passive investment

Investment funds are divided into two categories – *actively managed funds* and *passively managed funds*. Each style has its own advantages and disadvantages.

Actively managed funds depend on the skill and unique insights of the investment manager in achieving superior rates of return on investment. Active investments have the potential to perform above market benchmarks and achieve higher rates of return, though that's not guaranteed – academic studies have shown that on the whole, slightly half of actively managed funds have performed better than the overall market when you exclude fees. However, when you include commission costs, load fees, and management costs, approximately two-thirds of actively managed funds underperformed the market.

Passively managed funds, on the other hand, typically are low cost and track the performance of an index, e.g. the ASX 300. Passive investing allows investors to gain exposure to an asset class without the need to decide on the quality of the investment manager. However, using this strategy will mean there is no potential for getting any better returns than the market benchmarks.

We've already discussed how fees play a crucial role in your ultimate investment return, so regardless of your choice, you need to make sure you are receiving value for money through the quality of the investment manager you choose, and the level of service you receive in relation to the level of fees they charge.

Ways to invest

Depending on the type of investment/s your organisation prefers and the amount of funds you have available to invest, there are a variety of options to choose from. To give you an overall picture, we've listed these options below and have provided a short description about how each one works.

- **Direct investment** – this involves directly purchasing stocks, investing cash in a savings account, or storing funds in a term deposit. To purchase stocks and other publicly listed securities, you typically open a trading account with a broker or through one of the online broking services available. The Australian Stock Exchange website (www.asx.com.au) provides a list of brokers and the different levels of service they each offer. Saving accounts and term deposit accounts can be opened at banks and other financial institutions.
- **Managed Funds or Index Funds** – these can be found in financial publications like the Australian Financial Review or rating services like Morningstar (www.morningstar.com.au). Each fund typically has a minimum investment amount, ranging from \$5000 upwards.
- **Master Trusts and Wrap Platforms** – financial institutions and major money managers typically have a list of investments available on a master trust or wrap platform. These allow investors to diversify across many different asset classes that they may normally not have access to because of availability of minimum investment thresholds.
- **Exchange Traded Funds** – an alternative to managed funds are exchange traded funds or ETFs. These are listed on the Australian Stock Exchange and allow investors access to international shares and can replicate the performance of the Australian share market.
- **Investment Manager** – if the amount of money your organisation has to invest is sufficiently large (typically \$1 million-plus), many large money managers offer dedicated investment managers who provide asset allocation advice, portfolio construction services and investment management services.
- **Financial Advisor** – financial advisors typically have a list of preferred investment options available that they can provide to investors. The Australian Securities & Investments Commission website (www.asic.gov.au) lists some useful tips on locating a financial advisor.

Performance benchmarks

When assessing investment performance, it is common practice for investors to benchmark themselves against an index. Such indexes act as a useful reference point to help you determine if your investment strategy is performing well.

Table 8 lists some commonly used benchmarks for a variety of investment classes.

Table 8: Benchmarks

Asset Category	Market Index Name
Australian Equity General	S&P / ASX 200 Index
International Equity General	MSCI World Ex Australia Index
Australian Fixed Interest	UBSWA Composite Bond Index
International Fixed Interest	JPMorgan Global Bond Index
Cash	UBSWA Bank Bill Index
Listed Property	S&P / ASX 200 Property Trusts Accumulation Index
Direct Property	Mercer Direct Property Index

Selecting an adviser

Many investors engage investment advisers to create an investment strategy, to execute the strategy and for ongoing support.

If your organisation chooses this route, you should ensure that you are comfortable with the experience and judgment of the adviser that you choose.

Below is a list of questions you may wish to ask when screening an investment adviser:

- **How many years of financial experience do you have?**

Ideally, your investment advisor should have a minimum of five years experience. The more your organisation plans to invest, the more experience you should demand of an advisor. As in any field, the more experience an advisor has, the better their advice is likely to be.

- **What is your educational background?**

Your advisor should be trained appropriately to issue the financial products you require. Ensure you check potential advisors' credentials carefully in order to make sure you are getting advice your organisation can rely upon.

- **How are you compensated for your services?**

The right answer to this question is through an asset-based, fixed, or hourly fee, not commissions. You should not select advisors who are compensated with commissions unless you have no alternative.

- **Do you understand the not-for-profit sector?**

While the knowledge and professionalism of potential advisers should be your organisation's key concern, it's helpful also if the adviser you choose has some knowledge of the not-for-profit sector. It can help to shape their advice if they have an understanding of the different imperatives that your organisation, as a not-for-profit, operates under.

Things to consider before you dive in.

“Individual decisions can be badly thought through, and yet be successful, or exceedingly well thought through, but be unsuccessful, because the recognised possibility of failure in fact occurs. But over time, more thoughtful decision-making will lead to better overall results, and more thoughtful decision-making can be encouraged by evaluating decisions on how well they were made rather than on outcome.”

Robert Rubin, former US Secretary of Treasury.

Some additional questions you might wish to ask of potential investment advisers:

- What is your investment philosophy?
- How can you help us achieve our goals?
- How will you track and report our progress?
- What investing approach do you believe is most successful, and what evidence can you show me that you have achieved that kind of success for your clients?
- What do you do when an investment performs poorly for an entire year?

Putting it all together

Understanding the different risk and return characteristics of types of investments and how they might combine to create a balanced investment portfolio is a critical first step for any organisation with money to invest.

Depending on your objectives and circumstances, an aggressive, moderate, or conservative asset allocation may be appropriate.

Your ultimate choice of investment should not be solely based on past returns as they are not a guaranteed indicator of future returns. However, past returns are a good tool to help you understand how a particular type of investment can work and what to expect with price movements and returns.

When making your investment choices, there are a number of considerations you need to take into account, including:

- Investment time horizon;
- Desired level of returns; and
- Acceptable levels of risk.

Diversification is a key investment concept. It is prudent to have several different types of investments (or *asset classes*) in your organisation's portfolio so that you spread your risk.

A suitably qualified financial planner or investment adviser can help you to select a range of investments which will suit your organisation best.

Finally, you should also consult your accountant about tax impacts on your investment strategy. Ultimately, having your financial adviser, your accountant and your banker working together to create the best investment options for your organisation is a very good outcome.

Investment sub-committees.

In an uncertain world, good process more often than not leads to good outcomes, though this is by no means guaranteed – the best laid plans can go awry. When it comes to investments, each organisation must determine its own preference for risk and returns.

Any not-for-profit considering investing money should first establish a framework to guide its review of the options and decision-making processes. You need to be sure that you have clearly articulated policies and strategies that are specific to your organisation's own unique needs and circumstances.

Examples of investment planning policies are provided at the end of this Guide, but you should use this as a starting point only. Your organisation's policy should of course be tailored to your organisation's own circumstances.

Ultimate responsibility for investments rests with the Board. However, when the size of your organisation, or the size of your investments, reach a certain level, it is advisable to establish an investment sub-committee to advise the Board. Alternatively, some organisations incorporate the functions of an investment sub-committee into the finance and risk management sub-committee.

Responsibilities

Whether a formal investment sub-committee exists or an alternative structure is used (or indeed if the Board retains these functions), the areas of responsibility remain the same. Broadly, these include:

- Establish the investment objectives, constraints and guidelines that reflect the financial goals of the organisation.
- Recommend an investment policy for approval by the Board.
- Determine the requirement, selection and usage of external investment professionals to guide and advise on strategy.
- Formulate an appropriate asset allocation strategy with the Board.
- Implement investment strategies consistent with investment policy and asset allocation strategy.
- Conduct reviews and monitor investment results against appropriately established benchmarks.
- Approve any and all significant investment actions.
- Monitor cash balances for consistency with investment strategy and liquidity needs.

Investment Policy Statement

An Investment Policy Statement (**IPS**) is a crucial document formulated by the investment sub-committee that bridges the understanding between what is approved by the Board and how the investment manager executes the strategy. This is covered in more depth in the next section, and sample statements have been included in the last section of this Guide.

External advisers, consultants and managers

Depending on the skill set of the investment sub-committee, it may be prudent to engage an external investment consultant, asset allocator or financial adviser/planner who can assist with the following functions:

- Helping to determine organisational level of risk and desired outcome.
- Development and review of investment policies.
- Reporting on investment performance.
- Advising on asset allocation to achieve objectives of the IPS.
- Making recommendations on the selection of investment managers to implement the IPS.
- Recommending potential investments that achieve the IPS' objectives.

Investment sub-committees.

Whether an investment manager is appointed internally or an external professional is engaged by the investment sub-committee, the responsibilities include:

- Purchasing, selling, and holding securities in line with the IPS guidelines.
- Regular investment performance reporting.
- Communicating with the investment sub-committee on changes that may impact achieving the IPS' objectives.
- Complying with the IPS.
- Reporting any changes in personnel or style that may impact future performance.
- Rebalancing the portfolio to comply with asset allocation guidelines stipulated in the IPS.

When deciding on an investment manager (whether internal or external; individual or a firm), there are a few key criteria to consider. These include:

- Minimum track record of performance (suggested time frame of 5+ years). The manager's performance will need to be compared with an appropriate benchmark, after taking into consideration the strategies, risks, and asset classes involved.
- Competitiveness of fees.
- Adherence to the Investment Policy Statement.
- Investment manager profile and their tenure at the investment management firm.
- History of assets under management.
- Your organisation's rapport with the manager.
- Investment style of the manager.
- Ethical and public relations considerations – does the individual/firm have the right reputation?

Review and monitoring procedures

An investment sub-committee typically meets quarterly to discuss changes and carry out its duties, but may meet more or less frequently depending on the complexity of the tasks involved.

Certain events that would trigger a review may include:

- Significant changes in cashflow – e.g. donations, disbursements or capital investments.
- Changes in performance of the portfolio.
- Changes in liquidity requirements and cash reserves.
- Changes in spending policies as set down by the Board.

A review of the IPS should be conducted annually.

When assessing investment performance, the sub-committee should compare the results with an appropriate benchmark and compliance with IPS guidelines.

The fees and expenses your organisation is paying should also be reviewed at least annually to ensure competitiveness and value for money.

Termination

There are certain times when the investment sub-committee may consider terminating an investment manager or liquidating (selling) an investment. These may include:

- Consistent trend of underperformance relative to appropriate benchmarks and peer groups (suggested timeframe for assessment is 3-5 years).
- Violations of IPS guidelines.

“Unless a variety of opinions are laid before us, we have no opportunity of selection, but are bound of necessity to adopt the particular view which may have been brought forward.”

*Herodotus, 5th Century BC,
Greek historian*

- Loss of key personnel or change in ownership structure.
- Significant change in assets under management over a 12-month period.
- Change in your organisation’s investment strategy or style.

Of course, these are only guidelines and can be used to inform your own organisation’s decision-making process.

Sub-committee members

The optimum size of an investment sub-committee, presuming the size of your investment warrants such a sub-committee, is typically considered to be three. The essential criteria for all members include an interest in the role, business acumen, and a strong affinity with and commitment to the values and mission of your organisation.

Potential candidates should also possess:

- Knowledge about the organisation’s programs, financial requirements and long-term objectives.
- Communication and decision-making skills.
- Good judgment.
- Integrity.
- Prior financial management, investment, and/or planning experience.

Areas to potentially source candidates include:

- Trusted advisers.
- Benefactors with a financial background.
- Large donors.
- Professional associations.
- Internal staff and Board members with the appropriate skills, a passion for the organisation’s objectives and an interest in the role.

Investment Policy Statements.

The Investment Policy Statement (IPS) is a roadmap that guides the investment process. It details an organisation's investment objectives, risk tolerance and constraints. Without identifying these factors, it is difficult to determine whether a particular investment or strategy is suitable or not.

Whilst an IPS does not guarantee investment success, it does provide discipline around the investment process and reduces the possibility of making hasty and inappropriate decisions. It also helps to ensure that your investment manager does not move your organisation outside the parameters carefully set by the Board.

Depending on the complexities and size of your investment program, your IPS can be simple or detailed. **Table 9** outlines the sections which should be included, and you will find a further description of each in the section below. Additional help may be found by using the sample documents included at the end of this Guide.

Table 9: Section of IPS

Purpose of the Investment Policy Statement
Investment objectives
Asset allocation
Investment diversification
Constraints
Ethical investment
Implementation
Performance benchmarks

Purpose of the Investment Policy Statement

The opening section of your IPS, the Purpose, should articulate your organisation's end goal for your investment strategy. This end goal could include one or a number of things, e.g.:

- To create a consistent stream of cashflow to fund future programs.
- To enhance short-term income generated by surplus funds.
- To maximise returns whilst minimising risk.

Investment objectives

The Investment objectives outline your organisation's return expectations – what level of financial return you hope to receive for your investment – and targets. In determining an appropriate target rate of return, the organisation's time horizon and risk tolerance will need to be considered.

Asset allocation

The Asset allocation decision is an important one. It is this decision, and not the selection of specific stocks, bonds, properties, etc., that will most likely determine the performance of your investment portfolio over time.

In this section of your IPS, minimum and maximum asset allocation percentages in bonds, stocks, cash, and property can be stated.

Investment diversification

Diversification is one of the keys to reducing risk. This section of your IPS should outline your organisation's diversification aims (e.g. *"In no case shall more than 15 per cent of the total portfolio be invested in shares in of any one particular company"*). Your statement may specify diversification aims both among asset classes and within.

Constraints

Many of the constraints to investing may be unique to your sector, organisation or industry. They can be in the form of liquidity requirements (how quickly you need to be able to turn your investments into cash), legal and regulatory issues particular to your type of organisation, time horizons (how long you can afford to keep your money tied up), and the individual needs and preferences of your organisation and its stakeholders – funders, donors, clients and supporters.

Liquidity is determined by the level of cash needed by the organisation to support day-to-day operations and act as a buffer to absorb unforeseen expenses.

From a **legal and regulatory** perspective, there may be specific investments that your organisation is prohibited from considering.

Your **time horizon** for investments will depend on your investment strategy and when you expect major expenses to occur.

Finally, your organisation may have **unique needs and preferences** that lead you to a certain investment style. For example, many not-for-profit organisations support socially responsible investing. This means that the organisation is prohibited from investing in certain industries (e.g. tobacco, weapon manufacturers etc.). The next section deals with this issue in further detail.

Ethical investment

Not-for-profit organisations have a particular responsibility to the community, as well as to their stakeholders (funders, donors, clients and supporters). You need to ensure that the money you generate as income is put to use in a way that will provide the best possible "value for money", or social return.

This will not only impact on your organisation's decisions on when and how to invest, but on the types of things you invest in. Firstly, you need to ensure that your money is invested responsibly, and does not support businesses doing work that raises ethical concerns: a cancer research fund would probably be ill-advised to buy shares in a cigarette company, for example. You may also wish to use your organisation's investment to generate positive community impacts.

There are three strategies to keep in mind when outlining with whom and in what your organisation will invest:

1. Positive screening

This strategy involves reviewing companies in which you invest to ensure they are businesses which sell positive products (e.g. energy companies selling solar panels), or are demonstrating best-in-industry approaches to design, manufacture, production and distribution of goods or services. You may also want to invest thematically. For example, if you are an environmental group (or even if you're not), you may want to invest in companies with a low carbon footprint.

2. Negative Screening

The reverse of positive screening, negative screening or avoidance strategies see organisations reviewing companies they would invest with to ensure they do not breach predetermined social, environmental or ethical standards.

Case Study: Ethical Investment

The Trawalla Foundation

The Trawalla Foundation is a Melbourne-based family foundation that invests in social enterprises and other opportunities focusing on the arts, ideas, innovation and scholarship.

The Foundation has set down a medium risk level for its investment strategy, with a portfolio comprising cash, property, Australian and international equities and direct investments.

Both negative and positive screening strategies have been applied to the Foundation's investments:

- Positive screen:
 - Representation of women on the board, as per ASX requirements from 1 July 2010
- General negative screens: tobacco, armaments, alcohol, gambling, animal testing. Specifically (but not limited to):
 - Crown Casino
 - Tabcorp
 - Woolworths
- Further considerations:
 - Ethical and sustainable living practices, e.g. strategy seeks to avoid factory farming initiatives

3. Engagement

Investing in a company may give you the power, as a stakeholder, to campaign for different business practices within that company. As a shareholder, your organisation will be able to attend annual shareholder meetings, and may hold more sway in undertaking active communication with the company's leadership team to campaign for change.

One way of assessing the appropriateness of a certain business is to look at their corporate responsibility practices. Many Australian and international banks are listed on ratings and awards schemes which recognise ethical or sustainable business practices, including but not limited to Ethisphere's Most Ethical Companies List, the Global 100 Most Sustainable Companies List, Money Magazine's Climate Leadership Awards, the Dow Jones Sustainability Index, the FTSE4Good Index, and the Australian Sustainability Awards for Corporate Governance, and the St James Ethic Centre's Corporate Responsibility Index.

Another option is to invest your organisation's money in a socially responsible or ethical investment fund that will screen the companies for you.

It's a good idea for not-for-profits to include a section on *Ethical Investment* in their IPS, taking into account your organisation's attitude to the factors described above.

Implementation

This section of your IPS should help you and your organisation go about pursuing its investment strategy. This includes determining whether an investment manager or advisor will be used, how often the IPS will be reviewed, and how often the investment manager's performance will be assessed.

Performance benchmarks

An appropriate performance benchmark should be established to help assess how well each of your investments are working out over time. This can then form the basis of your investment review procedure.

Sample Investment Policy Statements.

Small organisation: PQR Inc.

This example is drawn from Our Community's online Policy Bank (www.ourcommunity.com.au/policybank). It may be best suited for a small organisation and may be compared and used in the development of your own organisational policies and statements. Identifiers have been altered.

Introduction

The Board of PQR is responsible for ensuring that the organisation operates within a responsible, sustainable financial framework and that the organisation has adequate resources to carry out its work. PQR's Investment Plan forms an important part of fulfilling this responsibility.

Purpose

This policy is designed to:

- Direct the use of investment funds of PQR; and
- Determine PQR's future financial planning strategies to ensure the organisation is able to maintain its operating budget and create growth.

Policy

The Board of PQR is responsible for maintaining and extending the assets of the organisation, to provide for its long-term financial viability. In its stewardship of PQR's financial assets, the Board has adopted the policy to ensure that any assets not required for the current operating budget will be invested in accordance with PQR's Investment Plan.

The purpose of PQR's Investment Plan is to manage the cash assets not required for current operating expenses so as to maximise the earnings of such assets, while retaining security and minimising risks. All interest and other earnings from such investments are deposited into PQR's operating account and thus become part of the annual operating budget.

The Investment Plan is designed to ensure that:

- PQR's funds are utilised to achieve a balanced operating budget.
- PQR creates capital growth and generates income.
- There will be access to cash to cover current liabilities.
- PQR will have access to cash for establishing new projects.
- PQR will have access to cash for unforeseen expenses.

Responsibility

The CEO and Finance Manager/Treasurer, in consultation with the Investment Sub-committee, are responsible for recommending an Investment Plan portfolio for consideration by the Board in the context of the annual Business Plan.

Guidelines

- Capital funds that PQR accumulates will be invested in interest-bearing assets and the interest generated by these investments will be used to meet the operating costs of the organisation.
- Unexpended annual budget funds at the end of a financial year are to be allocated for the global use of the organisation.
- Priorities set in the Business Plan are to be adhered to.
- The progress of investment funds is to be considered at the end of the financial year in the annual review of the Investment Plan.
- Investments are to be made with low to medium risk ventures; that is, investments that provide for security of capital over the medium to long term.
- PQR will only invest with reputable, established, proven financial institutions.
- 100 per cent of any share portfolio will be invested with ethical investments.

Procedure

- The Investment Sub-committee will investigate investment options and make recommendations to the Board, in the form of an Investment Plan, as part of the annual Business Plan.
- PQR will retain an independent investment consultant to provide advice about investment opportunities and maintain a portfolio of investments.
- PQR's Executive Director and Finance Manager/Treasurer will meet annually with the investment consultant to discuss the performance of the investment portfolio and report to the Finance Committee, which will in turn report to the Board.
- The Finance Manager/Treasurer will receive information about and keep track of the progress of all investments, and report on the progress of the investments as required to the Executive Director, Investment Sub-committee, and the Board.
- The Investment Plan will be reviewed every 12 months as part of the strategic planning for the Business Plan.

Medium Organisation: Variety, the Children's Charity.

This example may be best suited for a medium-sized organisation and may be compared and used in the development of your own organisational policies and statements.

Introduction

Variety, the Children's Charity is committed to a sustainable, responsible financial framework and maintaining adequate resources to carry out Variety's core purpose of helping Australian children. This statement of investment reflects the investment policy objectives and constraints.

Purpose

The purpose of this policy is to:

- Define and assign responsibilities of all involved parties.
- Establish a clear understanding for all involved parties of the investment goals and objectives.
- Offer guidance and limitations.
- Establish a basis for evaluation of results.
- Manage assets according to prudent standards and within Variety's constitution and applicable laws.
- Establish relevant investment horizons.

In general, the purpose of this policy is to provide a framework of investment strategy. It is intended to be flexible enough to be practical.

Principle aim of investments

Within agreed risk parameters, the principle aim of Variety's investments is to maximise income and preserve capital for the core purpose of helping Australian children who are sick, disadvantaged or have special needs.

General investment principles

- Investments will be made solely in the interests of Variety, the Children's Charity.
- Investments will be made with care, skill and diligence.
- Cash is to be employed productively at all times by investment in short-term deposits to provide safety, liquidity and return.
- Priorities in the business plan are adhered to.
- Investments will be ethical.

Investment management policy

- Risk Aversion – The finance committee recognises that some risk is present in all types of investments and it is necessary to produce long-term investment results. The committee and any investment manager will make all reasonable efforts to control risk and remain within the investment style and objectives brief.
- Preservation of Capital – The finance committee will make every effort to invest in a style and products that preserve capital.
- Liquidity – Variety requires the ability to deposit and withdraw funds on a continuous basis. The committee will seek to maximise returns on short-term investments while maintaining liquidity.
- Investment Discipline – The committee will adhere to the investment policy at all times.
- Long-Term Investment – When possible, the committee will seek to maximise returns through medium and long-term investments. The finance committee will determine the amount, either as a percentage of funds available or a fixed amount.

Investment objectives

For Variety to meet its core purpose of helping children who are sick, disadvantaged or have special needs, the investment objective will emphasis a mix of capital growth and income.

Investment committee

The finance committee will provide oversight for the investment of any available funds, establishing the parameters outlined in this policy for the timing of investments, the amount to be allocated and the nature of the investment.

Timelines

- Short-term funds will be defined as those required for operations within a reserve period of six months.
- Medium-term funds will be defined as those required for operations between 6 and 12 months.
- Long-term funds will be defined as those required for operations beyond 12 months.

Variety's procedures require grants to be funded in a timely manner. Due diligence and budgeting must apply to establishing a long-term investment to prevent any delay in delivery of Variety's core purpose.

Tax legislation

Variety is registered charity with income tax exemption. As such, income from investments do not attract income tax and all forms of investment should be evaluated on the gross return where no income tax is payable.

Investments in shares where franked dividends are paid should be evaluated gross of the franked dividend, as the franked amount will be refunded to Variety.

Guidelines for investment classes

Permitted asset classes are:

- Cash and Cash equivalents.
- Property.

Permitted investment types are:

- Deposits with any bank registered under the Commonwealth Banking Act of 1959.
- Deposits with official dealers in the short term money market in Australia.
- Donated or capital raising property.

Potential investment options:

- Australian fixed interest, limited to S&P/ASX 100 listed companies and deposit-taking institutions within the S&P/ASX 200 index.
- Interest in a managed investment scheme.

Prohibited asset classes and investment types

- Futures contracts.
- Put and call options.
- Warrants.

Review and benchmarking

The finance committee will review and benchmark the performance of investments by comparing results to commercial bills.

Large organisation: The Good Foundation.

This example may be best suited for a large organisation and may be compared and used in the development of your own organisational policies and statements. Identifiers have been altered.

Introduction

The Good Foundation provides grants to community organisations across Australia.

The Foundation has several million dollars under management (the corpus), the income from which funds its grants program.

Asset allocation

The Foundation has appointed a dedicated investment manager, who oversees a strategic asset allocation comprising a mixture of:

- Cash.
- Fixed interest.
- Listed property.
- Australian shares.
- International shares.

An Investment Committee, which meets and reports to the Board quarterly, sets the direction and oversees the investment manager's work.

Investment policy aims

All of this is anchored by a policy which comprises three key aims:

1. To preserve the corpus;
2. To maximise income; and
3. To achieve growth above the Consumer Price Index.

Guidelines

The Board acknowledges that preserving the corpus, maximising income and achieving growth are linked but also mutually exclusive; thus a balanced approach is required.

Among the other guidelines set for the Good Foundation's investment strategy are that:

- The Foundation has some risk appetite. The Board will tolerate some volatility.
- Ultimately the Board would like to preserve the corpus, however it will allow some of the corpus to be used if extreme circumstances (e.g. the global financial crisis) mean that grantmaking is not otherwise possible.
- The investment manager may move the asset allocation by 10%. Any greater movement than 10% can only be done in consultation with the Board.

Review and benchmarking

Fund performance is reported on quarterly and measured against a blended benchmark reflecting the asset allocation across various asset classes.

Glossary.

Asset Allocation	How money invested is distributed among various types of investments, such as stocks, bonds and cash.
Asset Classes	Categories of assets that are fundamentally different in structure. Examples of different classes of assets include stocks, bonds, cash and property.
Capital Gains	A capital gain is a profit that results from investments into a capital asset, such as stocks, bonds or property, which exceeds the purchase price.
Compound Interest	Interest that is calculated both on the principal sum investment and the accrued interest.
Diversification	Spreading your investments over a range of asset classes, or over a range of investments within each asset class, to minimise the possible risks associated with each type of investment.
Dividends	Payments made by companies to shareholders, traditionally made twice a year, which are part of the profit made by that company.
Dividend Imputation	A corporate tax system, in which some, or all, of the tax paid by a company may be attributed to the shareholders by way of a tax credit.
Equities	Another word for <i>shares</i> or <i>stocks</i> . A security representing ownership rights and entitlement to a share in the profits of a company.
Franking Credit	Income tax credits that a corporation may choose to pass on to shareholders as a repayment for tax paid.
Investment Policy Statement	A document outlining the investment policies of any organisation.
Investor Sentiment	The tendency for the market to move up or down over a set period of time.
Liquidity	How readily your investment can be turned into cash without compromising the value of the investment.
Listed Property Trust	A group of investors pooling funds to invest directly or indirectly in property which is listed on the stock exchange.
Managed Funds	Managed funds rely on the expertise of the mutual fund manager to research and select the stocks or bonds that make up the fund's portfolio.
pa	Per annum, per year.
Portfolio	A collection of investments all owned by the same individual or organisation.
Return	The percentage change in value of the investment over a given period of time, including both capital appreciation and dividends or income.
Risk	The tendency for the actual investment return to differ from the expected investment return.
Shares	Another word for <i>equities</i> or <i>stocks</i> . A security representing ownership rights and entitlement to a share in the profits of a company.

Stocks Another word for *equities*. A security representing ownership rights and entitlement to a share in the profits of a company.

Unlisted Property Trust A group of investors pooling funds to invest directly or indirectly in property which is not listed on the stock exchange.

Volatility Measure of instability in return on investment.

Everyday Community Banking Solutions for not-for-profit organisations.

Westpac Social Sector Banking has developed a unique suite of products specifically for not-for-profit and community organisations. We also have a dedicated team of not-for-profit specialist bankers who can ensure that Westpac and your organisation create the most beneficial banking partnership for your needs.

Day to day banking solutions

Everyday banking solutions including the Community Solutions Account with no monthly service fee and interest calculated daily, plus a host of products and services that can help you make the smartest choices to get the most out of your not-for-profit status.

Managing your cash

Managing cash flow is crucial to running your organisation smoothly. Whether it is the convenience of reconciling your costs online or the potential to maximise your earnings, we have solutions to help you get on top of your earnings.

Investment solutions

Make the most of your cash reserves with our secure investment solutions. They offer high interest, similar to a term deposit with the added flexibility of a day-to-day account so you can maximise your organisation's resources.

Helping your organisation grow and expand

A range of lending solutions will help you to grow to increase your local impact. The more successful your organisation is, the more the community benefits – so, if you need the finance to grow your purpose, we have many options available to support your growth or transition.

Beyond banking

Easy switching service as well as financial planning and advice to simplify and personalise your organisation's wealth strategies.

Financial literacy and advice

Westpac offers community organisations financial literacy help and advice for Treasurers and Board members of community organisations.

Through work with community organisations of all sizes – from local sports clubs to schools and national aged care facilities – we've learned that the demands and opportunities of this sector are enormously diverse. Strong banking is key but we need to offer more than that. After all, you want to maximise the impact of every dollar that your organisation receives, ensuring that as much funding as possible benefits your cause.

For more information visit www.westpac.com.au/socialsectorbanking

