



**ROYAL UNITED SERVICES INSTITUTE
FOR DEFENCE AND SECURITY STUDIES,
NEW SOUTH WALES, INCORPORATED**

INVESTMENT POLICY

SEPTEMBER 2016

ROYAL UNITED SERVICES INSTITUTE FOR DEFENCE AND SECURITY STUDIES, NEW SOUTH WALES - INVESTMENT POLICY

1. Purpose

This Investment Policy has been designed to outline the principles for prudent and acceptable investments by Royal United Services Institute for Defence and Security Studies, New South Wales, Incorporated ("RUSI") and the responsibilities of the Board with regard to these investments. It forms part of the existing broader approved policies of RUSI.

This policy was initially approved by the Council on the thirteenth of April 2015.

2. Investment Mandate

The Board strives to provide a reliable annual stream of investment income available to RUSI cognisant of its stated risk versus reward parameters and investment goals, whilst also, at the same time, building a capital base that will ensure a sustainable endowment for the future.

The functions of the Board are to manage and control the invested funds and to exercise any other investment functions under the Constitution which do not vest in another body or person.

3. Investment Principles

Invested funds must be managed with the utmost care, prudence and integrity and in compliance with the Constitution and guiding principles of RUSI.

The Board must act in a way that is unlikely to cause any diminution in RUSI's reputation.

In targeting the benchmark return, the Board must determine an acceptable, but not excessive, level of risk for RUSI's invested funds measured in terms such as the probability of losses in a particular year.

The Board must have regard to best practice for institutional investments in determining its approach to corporate governance principles.

4. Risk Profile

The Board and delegated officers have a fiduciary responsibility to ensure risks are kept within approved boundaries, particularly credit risk, while complying with the Prudent Person Rule.

5. Prudent Person Rule

The Board must comply with its fiduciary responsibilities as trustee and ensure all delegated officers act in accordance with the Prudent Person Rule.

The main features of the Prudent Person Rule include:

- Exercising the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons; and
- A duty to invest funds in investments that are not speculative or hazardous.

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In exercising powers of investment, there are important matters for consideration, these include:

- The purpose of the investment and the needs and circumstances of RUSI;
- The desirability of diversifying investments;
- The nature of and risk associated with existing investments;
- The need to maintain the real value of capital and income;
- The risk of capital or income loss;
- The likely income return and timing of the income return;
- The length of the term of the proposed investment;
- The effect of the proposed investment in relation to the tax liability (if any);
- The likelihood of inflation affecting the value of the proposed investment; and,
- The results of periodic review of investments.

6. Investment Objectives

The following investment objectives are to be taken into account when formulating investment strategies and decisions:

- A conservative approach to investing will be pursued, but with a focus of providing targeted levels of income through prudent investment of funds;
- To achieve an average annual investment return of at least annual inflation plus 3.5% measured over a rolling five year period;
- To achieve and maintain a level of investment diversification that adequately spreads risk and minimises over exposure to any one issuer or investment;
- To achieve a high level of security by reference to recognised ratings criteria where available
- To achieve adequate liquidity to meet day-to-day, medium and long-term cash flow requirements without incurring penalties for early redemption of investments;
- To protect the original investment amount and to minimise the risk of incurring capital losses through prudent investment choices;
- To meet the ethical and socially responsible criteria that are consistent with the objectives of RUSI.

7. Portfolio Design

The Board has established a long term asset allocation consistent with its investment beliefs and the specific requirements of its investment mandate. The investment mandate sets a return hurdle of at least CPI plus 3.5% p.a. measured on rolling five year periods. The investment mandate stipulates the Board should take acceptable but not excessive levels of risk.

The Board has chosen to consider investments in three broad categories, which have common characteristics, as follows:

Category	Definition	Sectors covered
Listed equities	Exposure to major corporate enterprises gained through public markets	Australian equities listed on ASX

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Property	Exposure to entities owning income producing real estate properties	Australian Real Estate Investment Trusts listed on ASX (A-REIT)
Cash	Exposure to domestic, short duration fixed interest investments with tightly managed credit risk	Australian Bank deposits

The following table sets out the expected allocation to these broad categories over the long term. This portfolio represents the level of exposure to each of the broad asset classes which might, on average, be held over the long term. Recognising that markets are seldom at fair value and that the range of opportunities available is constantly shifting and that the actual holding at any point in time will reflect this, the allocation is regarded as an equilibrium exposure to the investment categories rather than a weighting which is specifically targeted. The below is a broad guide to be followed by the Board.

Category	Target Allocation	Ranges
Australian Listed Equity	50%	30% - 60%
Australian Property	20%	0% – 30%
Cash	30%	10% – 40%
Total capital allocation	100%	

8. Risk Management

The investment mandate requires the Board to have regard to maximising return over the long term and taking appropriate but not excessive levels of risk. In general the investment strategy adopted by the Board, and in particular the mix of growth versus income assets, will have a dominant influence on the returns generated. Investment strategy is primarily influenced by the investment objectives of RUSI and the time horizon over which these are to be achieved.

In accepting the investment objective set by RUSI, the Board acknowledges that this means that a proportion of the invested funds will need to be held in assets carrying market risk. This means there will be volatility of returns over shorter periods. The Board's policy is that the mix of assets should be as efficient as possible (that is, should offer the highest level of return for an acceptable level of risk). For this reason the Board has adopted a policy of operating a flexible asset allocation which reflects the Board's view of the market exposures which are more likely to meet the terms of the investment mandate (maximising return without taking excessive risk) given current market conditions.

9. Investment Risk

In seeking to maximise returns the Board is mindful of the inherent risks. Those risks are considered because they offer a reasonable expectation of compensation in the form of returns above the risk free rate (excess returns) over the time horizon of the funds. Risks accepted in order to pursue the investment objective fall into three categories:

a) Market Risk

The Board holds exposure to a wide range of assets which the Board expects will produce returns divergent from and superior to, the risk-free rate over the long term.

Market risk is generally managed by:

- adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the invested funds. That risk profile is determined after careful analysis of the prospective risk and return characteristics of each asset class in which the fund might be invested;
- avoiding concentration of risk by ensuring there is adequate diversification between and within asset classes; and
- diligent and thoughtful ongoing assessment of the risk exposures, particularly in the context of the prevailing market environment.

b) Credit Risk

Credit risk (or counterparty risk) is the risk of default by the counterparty on its contractual obligations.

Credit risk is generally managed by ensuring:

- the average credit quality within the investments is within agreed guidelines;
- the exposure to different tiers of credit are within agreed guidelines;
- the maximum permitted exposure to any one issuer is within agreed guidelines.

c) Liquidity Risk

Liquidity risk is the risk that a security cannot be sold when required or the price achieved is significantly different from the quoted price

Liquidity risk can be managed by selecting investments which are listed and actively traded on the Australian Securities Exchange.

10. Diversification

The Board recognises the importance of diversification to mitigate risk and consequently applies the following guidelines for investing:

- The portfolio must be diversified to ensure a spread of credit risk and market risk.
- Except in the case of deposits with an Australian bank, aggregate underlying investments with any individual issuer must not exceed the greater of \$10,000 or 10% of total funds invested.

11. Interest Rate Management

Investment strategies with respect to interest rate investments should be passive and should not be made on the basis of trading duration or interest rate direction. Fixed interest rate investments with a maturity greater than one year are not permitted.

12. Investment Portfolio Flexibility

The Board will ensure that proper procedures are in place for:

- the making of investment decisions;
- delegation of authorities from RUSI Board;
- withdrawal and amendment of investment powers and delegations.

13. Delegations

Within the confines of this Policy, the Board has the delegated authority to select, approve and execute specific investments.

The Board may appoint external advisors to assist it in carrying out its duties and responsibilities under this Policy provided the cost of the remuneration of such advisors has been approved by the Board.

14. Investment Process

The Investment Policy is to be reviewed at least annually.

Investment performance is to be monitored and reported at least quarterly to the Board as part of the normal reporting process.

Investments may be made directly or through pooled investment funds, in which case, it is the underlying investments of those funds which are subject to this Policy.

All investments shall be in the name of RUSI or where held in a custodial arrangement, certification that the custodian is licensed to provide such services and provides evidence in writing of the custodial arrangement on behalf of RUSI for each such investment.

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15. Gearing Policy

RUSI will not borrow for the purpose of investing.

The Board will not invest in pooled investment funds or products that use gearing to increase the gross value of the assets of the pool, other than pooled funds consisting of real property assets that are partly funded by debt, in which case, the level of gearing must not exceed 50%.

16. Foreign Currency Policy

All investments are to be in Australian Dollar denominated investments or securities.

The Board will not enter into any direct foreign currency exposures.

17. Derivatives Policy

The direct use of derivative instruments, such as forwards, futures, options, warrants, swaps, share ratios, is not permitted.

Where investments are made in pooled funds, the use of derivative instruments by those pooled funds is permitted provided the Board is satisfied that such use is limited and is properly managed.

18. Direct Hedging Policy

No direct hedging is permitted.

19. Conflicts of Interest

If any member of the Board has a conflict of interest with regard to any current or proposed investment, that member must immediately declare that conflict of interest to all other members of the Board and must not participate in any discussions or deliberations with regard to that investment.