Governance Framework: Investment Decision Making and Management

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Introduction

1. This paper describes a governance framework for disciplined investment decision making, the management and oversight of investments, and the rationale for such a framework.
2. Although the paper is aimed at not-for-profit, community, charitable and similar organisations, the principles are more broadly applicable.
3. There is a growing need for a disciplined approach to investment decision making and management for the following reasons:
    a. as a consequence of materially increased competition for charitable donations and funding;
    b. due to changes in government funding models towards contractual fee for service structures rather than relatively assured longer term annualised grant funding; and
    c. due to increased governance accountability and transparency expectations of funding agents.
4. Boards and management which fail to properly address this important function not only risk sub-optimal outcomes for their constituents and financial distress for their organisations, but also personal reputational (and even liability) risks for directors and officers. The case studies in this paper, which are based on true events, highlight some of these issues.
5. An organisation's financial capital is one of its most important resources. Putting that financial capital to optimal prudential use and return, and protecting that financial capital from undue risk of loss, is critical to an organisation's capacity to meet its strategic objectives and achieve its goals.
6. In order for an organisation to meet its strategic objectives and achieve its goals, it is appropriate for boards, in conjunction with management and external consultants (as appropriate), to develop and approve investment policies and strategies and to oversee, monitor and review them from time to time.
7. An organisation's investment policies need to integrate holistically with its overall strategic and business planning as well as its budgetary, capital works and cash flow analysis and planning functions.
8. Sub-optimal returns and the risk of loss of financial capital can cause an organisation to underperform against its strategic objectives and affect an organisation's going concern status. This paper is intended to help boards to mitigate these risks.

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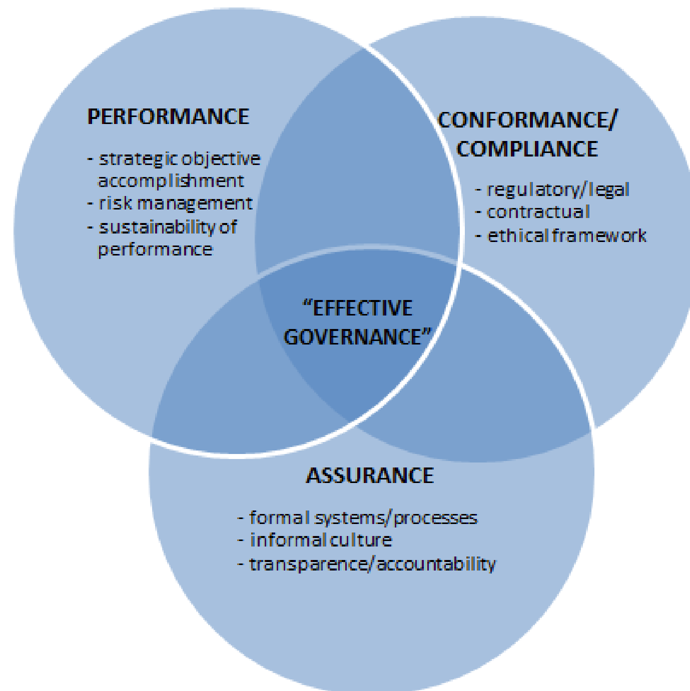
Organisational Governance Framework

(a) Effective governance has been defined as:

"the processes and systems by which quality informed decisions are made and actioned in a timely manner to optimise an organisation's performance in accordance with its stated objectives and to effectively manage its risks".[1]

Effective governance has also been described as a troika of the confluence of 3 domains as set out in Table A.[2]

Table A – Troika of Effective Governance



(b) Governance is about organisational performance outcomes and seeks to assist in balancing risk and reward; that is, how to deliver enhanced performance outcomes with proper regard to protecting the "downside" through effective risk management and mitigation.

Table B – The risk/reward dynamic

[1] Cole.S., *"An effective Governance Framework to support Emerging Corporations and their stakeholders"*, AICD Twilight Briefing November 2017.

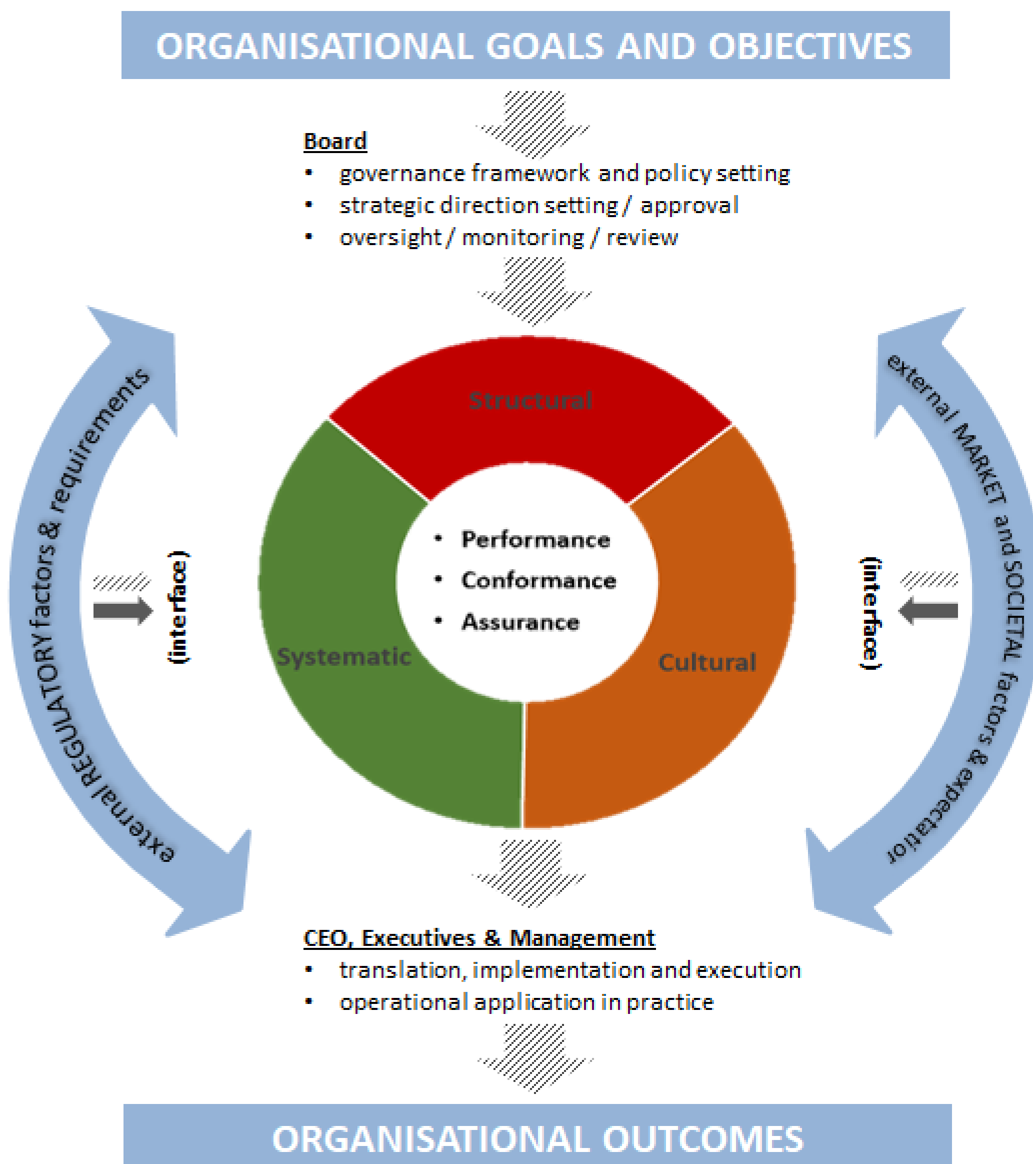
[2] Cole.S., *"Governance a whole of Organisation Matter"*, Governance Institute presentation April 2016.

(c) A governance framework needs to take into account the following aspects of an organisation:

- structural governance – its legal form, as well as the make-up, relationships, scope of authority and responsibilities of its internal organs (board, committees, CEO, executives, management);
- systematic governance – the agreed policies, procedures, codes, protocols and processes by which an organisation's affairs are conducted;
- cultural governance – the informal accepted rules and mores which guide the behaviours of an organisation's people in going about their tasks on behalf of the organisation ("the way we do things around here").

These all need to be framed in the context of the external regulatory and market factors, requirements and expectations that impact on the organisation and its affairs. Table C expresses these aspects in diagrammatic form.

<u>Table C</u> – Structural, Systematic & Cultural Governance Framework



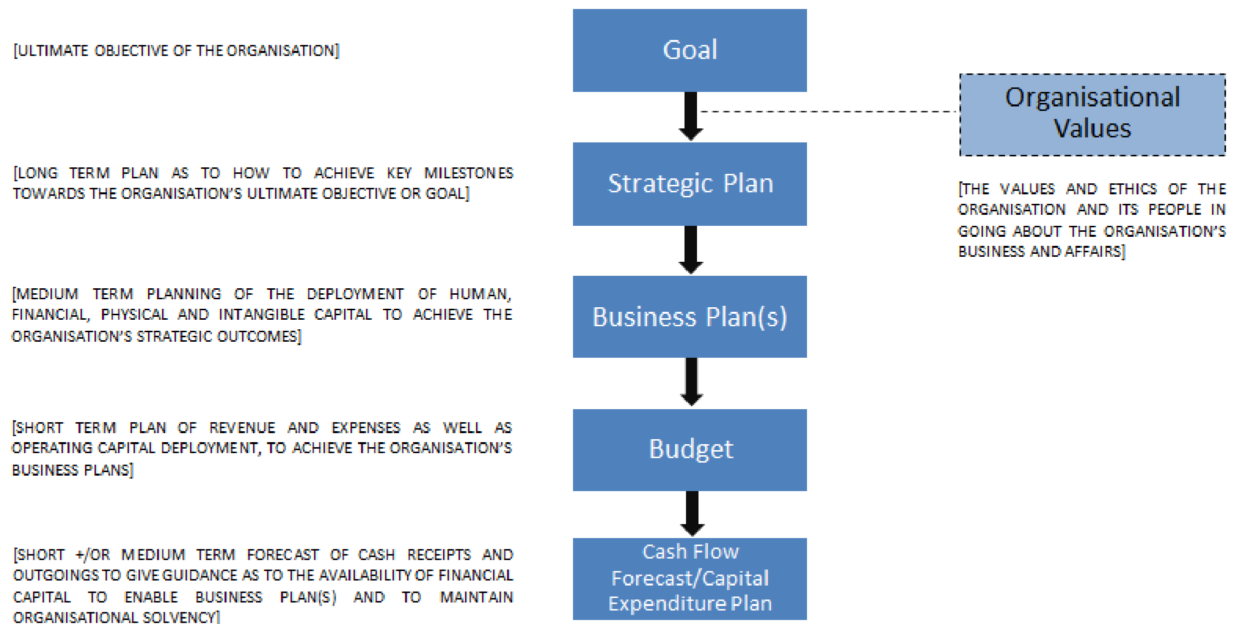
(d) In order to achieve their objectives, organisations have at their disposal certain forms of capital:

- human (e.g. employees, contractors and volunteers in the case of NFP/charitable organisations);
- financial (e.g. cash, investments, receivables);
- physical/tangible assets (e.g. premises, plant, equipment); and
- intangible assets (e.g. intellectual property rights, work systems, goodwill, brand)

(e) Typically organisations deploy the various forms of capital at their disposal in seeking to meet their objectives through a process of strategic planning, business planning, budgeting and cash management.

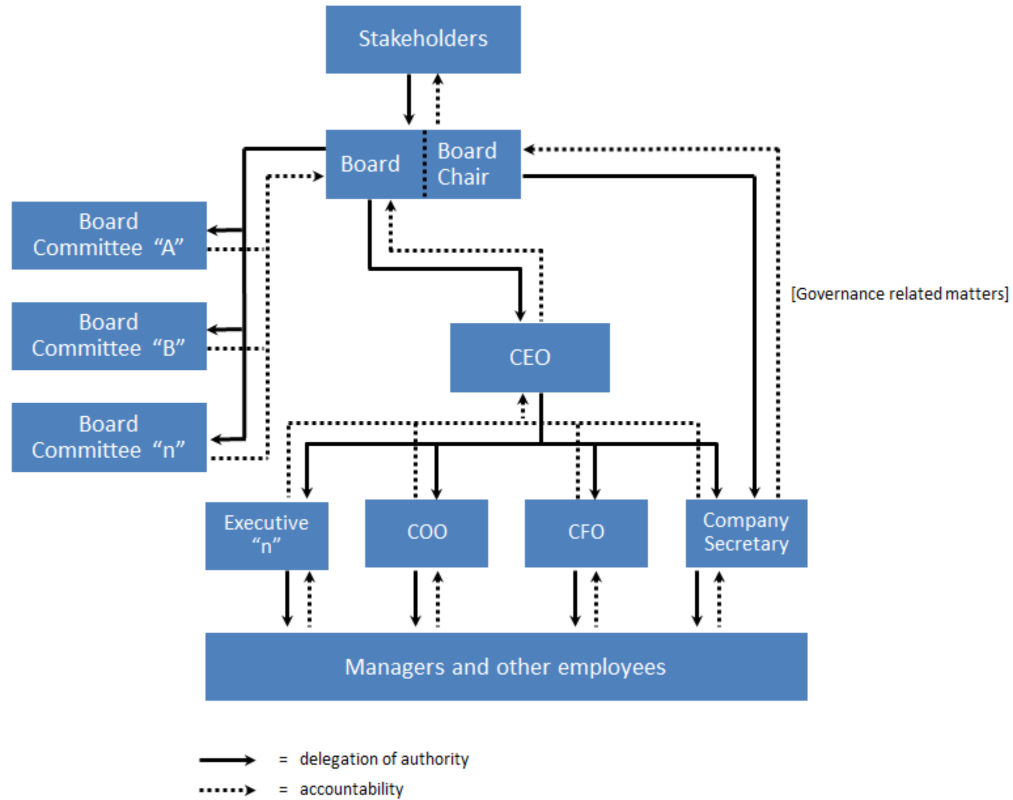
Table D below depicts a typical process by which organisational activity is structured.

<u>Table D</u> – Structure of Organisational Activity



(f) With respect to an organisation's governance and accountability flows, a structure in the form of Table E is relatively common practice.

Table E – Typical Model of Governance and Accountability Flows



(g) Governance is the domain of the organisation's board. The role of the board includes:

- setting the organisation's strategic direction and plan;
- approving the organisation's performance objectives and appetite for risk in accordance with the terms of that plan;
- overseeing management's:
  - implementation of that plan;
  - delivery of performance objectives; and
  - management of the organisation's risks;
- setting the organisation's structural, systematic and cultural governance framework; and
- adopting governance-related policies, codes and protocols to help the organisation achieve its performance outcomes and manage risks.

Case Study 1

An aged and elderly services charity ("**Charity A**") provided valuable services within its district in co-operation with the local government authority.

With the availability of what was perceived to be reasonably reliable ongoing grant funding from both federal and local government sources, Charity A maintained a lean working capital buffer and applied its accumulated strategic funding reserve to a new "elders activity centre", opened with great pride and fanfare by the district Mayor.

Changes were made to the federal government's funding model for service providers like Charity A. There was also a likelihood of reduced future local authority funding arising from the prospective advent of rating increase caps for local government authorities.

With these changes, the board of Charity A had to reflect on the sustainability of its service offering and its prospective "going concern" status. The board also reflected on its decision to have fully expended its strategic funding reserves on the "elders' activity centre" rather than managing its financial reserves to ensure its ongoing sustainability.

2 Overview - Investment Policy

(a) The principles of governance described above should also apply to the investment of an organisation's available financial capital.

(b) In particular, matters need to be put in a proper strategic context, and within that context a balance found between performance/reward outcomes (i.e. yield and/or capital growth) and management of the risk of the investment (i.e. underperformance and/or capital loss).

(c) Financial capital is one of the key forms of capital available to an organisation. It enables an organisation to:

- deploy its other capital (human, physical and intangible) towards achievement of the organisation's strategic objectives;
- maintain its "going concern" status; and
- remain solvent (i.e. meet its debts as and when they fall due for payment).

(d) Well governed organisations develop, adopt and implement disciplined investment policies to ensure that:

- financial capital is available, as and when needed, to fund the organisation's business plans (medium term) and strategic plans (longer term);
- "working capital" is available to meet the organisation's short term operational needs (cash flow); and
- the organisation is financially liquid to ensure its "going concern" and solvency status.

(e) An investment policy is an instrument within an organisation's systematic governance framework which is typically:

- prepared in draft by management (having regard to the rationale described in 2(b) and (c) above) and presented for consideration by the board;
- deliberated upon by the board in consultation with management, having regard to:
  - the organisation's strategic priorities and needs;
  - the board's endorsed appetite for risk and risk tolerance within the organisation's risk management framework; and
  - the advice of external expert consultants (as necessary and appropriate);
- approved by the board;

- implemented and managed by management;
- periodically reported against by management to the board, often through a board committee (e.g. finance, investment, audit/risk committee); and
- periodically reviewed as to its ongoing relevance and fitness for purpose by the board in consultation with management, often with assistance from that same board committee.

3 Investment Policy Formulation

(a) An organisation's investment policy needs to be responsive to its:

(i) strategic plan funding needs;

(ii) business plan funding needs;

(iii) budgetary financial needs;

(iv) working capital needs (immediate and projected short/medium/longer term) consistent with operational and capital expenditure budgets;

(v) access to alternate funding (e.g. debt, equity, grant or other fundraising, asset realisation, liquidation and redeployment); and

(vi) appetite for risk and risk tolerance.

(b) From the perspective of strategic cash flow planning, the organisation needs to determine:

(i) its operational working capital needs;

(ii) its capital works programs and known financial/cash flow commitments over the short term (say 0-3 years);

(iii) the amount of any "discretionary surplus" financial capital the organisation may have after accommodating (i) and (ii) above;

(iv) any aspirational strategic funding needs the organisation may harbour (e.g. an endowment style reserve fund) and, if so, the target amount for that fund and within what timeframe should it be achieved;

(v) its appropriate prudential gearing ratio or inclination to carry debt funding having regard to the organisation's appetite for risk and business model; and

(vi) the organisation's high level risk appetite and risk tolerance concerning its investment policy, which should be determined holistically as part of the organisation's overall strategic planning and risk management framework (covering enterprise, operational and project risks).

(c) From this preliminary analysis and planning, the essential structural framework of an investment policy may then take shape.

Case Study 2

Disability services charity ("**Charity B**") had an engaged board and a dynamic CEO. Returns on Charity B's investment portfolio leading up to 2008 were impressive, encouraging the board to support a strategy to maximise Charity B's bank facility borrowings for investment in the equity markets, with an impressive delta return between the bank's interest rate and the performance of the investment portfolio.

The GFC intervened, materially impacting Charity B's investment portfolio value and liquidity, at a time when Charity B had just embarked upon a significant capital works program that relied on the market value of the investment portfolio and its apparent liquidity.

Cash flow challenges ensued leaving Charity B with no option but to liquidate a significant portion of its investment portfolio at fire sale prices in order to meet its commitments and maintain its "going concern" status.

(d) The next steps might then comprise:

(i) Identifying the relevant fund or sub-funds that need to be accommodated by the policy. This could include (depending on the organisation, its strategic needs and its available funding):

(A) short term fund(s) to meet:

- operational working capital needs; and
- known financial/cash flow commitments (including any capital works programs) over the short term (say 0-3 years);

(B) medium term fund(s) to meet strategically relevant (but discretionary and not committed) financial capital needs over the medium term (say 3-8 years); and

(C) long term fund(s) to meet strategic (but discretionary and even aspirational) financial capital desires over the longer term (say 8-10 years plus).

(ii) The board may assess and determine the organisation's "appetite for risk" for each such sub-fund above. Typically the board would consider the likelihood of a loss of capital if the relevant sub-fund needed to be realised within the anticipated "investment horizon" for that sub-fund, as well as the prospective consequences for the organisation if that occurred. This should include the consequences to the organisation of the actual loss of financial capital, as well as the consequences of the loss of strategic opportunity (including how critical those lost funds were to meeting the organisation's cash flow and business planning needs).

(iii) Typically an assessment and determination under subparagraph (ii) above is likely to lead to the following high level outcomes:

(A) short term fund(s): a low appetite and tolerance for risk given the need for certainty around availability and liquidity of the funds. There is little discretion as to when the investment may need to be realised;

(B) medium term fund(s): a moderate appetite and tolerance for risk given the discretionary nature of the funding needs and the medium term investment horizon. This allows the organisation greater flexibility as to when the investment might be realised or liquidated; and

(C) long term fund(s): a higher appetite and tolerance for risk given the absolutely discretionary nature of the funding needs and the very long term investment horizon. There is significant flexibility here as to when and if the investment may be realised.

4 Statement of Purpose

(a) An investment policy should be positioned with a high level statement of purpose to ensure its application and functioning is understood within the strategic context. A sample statement of purpose is set out in Appendix 1.

(b) It is also desirable to state the high level strategic investment objectives of each type, class or category of fund within an investment policy. Sample statements are included in Appendix 2.

Case Study 3

The synod of the Progressive Orthodox Church, led by its financially experienced pastor Matthew (who chaired its finance, audit and risk committee), adopted an extremely conservative and risk averse approach to investment of its long term accumulated endowment fund.

Based on the rationale that equity markets were too risky, the synod resolved to only invest in bank term deposits. Over the last decade the Church received an average return of 2.75% p.a. on

its investments, which is insufficient for the fund to materially support the Church's operational expenses and to become a capital base to support the Church's long term, strategically relevant chapel restoration project.

A Church elder, Bruce, a professional investment advisor, sought counsel with the synod as to its investment strategy, given that the average return over the last decade on a relatively conservative "balanced growth" investment portfolio, designed for a comparable investment horizon to that of the Church's needs, had been 7-9% p.a.

5 Considerations for Investment Policy Development

(a) From this base the organisation is now ready to develop and articulate its investment policy for each type of fund that the organisation determines it needs in furtherance of its strategic objectives (whether short term, medium term or long term). Elements of the organisation's investment policy framework are likely to apply across all such funds.

(b) The following widely accepted prudential investment practices – based on principles of portfolio diversification – may be applied to the investment policy:

(i) strategic asset allocation of investments across a breadth of asset classes both "defensive" (e.g. cash, bonds, debentures) and "growth" (e.g. property, Australian equity, international equity, emerging markets). However, for short term fund needs, where capital assurance and investment liquidity is vital, asset allocation may be limited solely to "defensive" assets such as cash management accounts, bank term deposits and bank bills of exchange only; and

(ii) determination of the appropriate fund manager(s) to be engaged to manage the investments (at least for medium and long term funds) having regard to their:

- experience and relative performance in the relevant asset classes to be invested in; and
- investment approach or style (e.g. "index followers", or value/yield/growth focused managers).

It might be beneficial to engage investment managers with varying investment styles. Note that some investment managers profess to target investment opportunities where the nature of the dividend return from the investment may result in a relatively higher overall return on investment for a charitable organisation with income tax free status.

(c) To assure reasonable portfolio diversity in asset allocation, and to guard against the risk of any individual fund manager's relative underperformance impacting unduly on the portfolio's overall performance, typically investment policies may include:

(i) percentage portfolio guidelines within which asset allocations should be maintained overall, yet at the same time give some flexibility and "buffer" for relative short term value movements between asset classes without breaching the investment policy guidelines. Appendix 3 includes an example of an asset allocation mix for a reasonably "balanced growth" investment that may be relatively typical of a medium term fund; and

(ii) a maximum percentage of the overall funds under investment that should be managed by a single fund manager or managers within the same corporate group e.g. say no more than 35% of the total value of investments within the fund. Typically, however, a less rigid approach may be taken with respect to bank investments under short term funds.

(d) Target investment returns or objectives (**Benchmark Returns**) might be set for each fund having regard to the appetite for risk and the strategic asset allocation. Typically this is an iterative exercise well assisted by professional advice from a competent investment adviser providing guidance as to:

(i) historical returns for each designated asset class invested in;

(ii) historical analysis of the likelihood for a capital loss in any year (or over a sequence of years) for investments in each designated asset class; and

(iii) the prospect of future returns (or capital loss) although accepting that historical performance is an imperfect predictor of future outcomes.

Benchmark Returns are typically set to measure the investment return (capital growth, market to market, plus dividends/interest/distributions paid) as a percentage in excess of the prevailing rate of inflation e.g. CPI (All Groups) Australia plus [say] 3% for a "balanced growth" fund.

(e) To bring an additional element of accountability to the performance of each fund within the overall investment portfolio, the performance goals for each fund should be set and might be stated as:

> "to achieve a rate of return over any rolling 5 year period at least equal to the Benchmark Return, where the Benchmark Return is calculated assuming the portfolio is invested in accordance with the benchmark asset allocation and industry accepted index returns are achieved for those asset class allocations;
>
> [AND]
>
> to achieve a rate of return above the average rate of return of investment fund managers generally operating in the industry with comparable asset allocation strategies."

This bifurcated measurement approach is designed to test:

(i) the suitability of the asset allocation to deliver an investment return that can meet the target Benchmark Return; and

(ii) the performance of the selected investment fund managers against the average performance of their peers.

(f) Other special instructions and/or limitations often included in investment policies to assist in the governance and accountability of investments include:

(i) [ethical investment bias]: investment position (i.e. bias towards or neutral) on ethical or socially responsible investments e.g. whether environmental, health, social or labour force factors (such as carbon emissions, tobacco, gambling, cheap oppressed labour) should, or should not, be specifically taken into consideration when selecting investments;

(ii) [use of derivatives]: whether or not fund managers may utilise derivative instruments such as futures or options to gear the portfolio;

(iii) [use of borrowings to gear the portfolio]: whether or not the organisation might raise debt to gear the portfolio or may only apply available cash surpluses to the organisation's operational needs for investment;

(iv) [direct investments]: whether or not the organisation and its officers are authorised to make direct investments in shares, securities or property (and, if so, to what maximum percentage of the aggregate investment portfolio), or whether all investments must be made via professional fund managers, whether by way of managed investment funds or trust, or structured portfolios of assets managed by a fund manager within an agreed mandate. For short term funds, typically designated officers of the organisation may be authorised to make direct investments in bank term deposits, bills of exchange and on cash management account; and

(v) [staged market entry]: to mitigate against market volatility when first executing an investment policy, investments might be made in several discrete tranches over a 6-12 month period, with tolerances being allowed under the investment policy against strict application of asset allocation guidelines over this period.

Case Study 4

Peter, a retired accountant, is a former head boy, sporting blue and long serving governor on the board of a prestigious private school ("**School**"). The role of the governors is a gratuitous non-remunerated commitment consistent with the values of the School alumni to "give back".

The School bursar, although adept at managing the School's operational affairs, lacked the skills and experience to effectively manage the investment of a large testamentary gift to the School from a wealthy old boy.

Responsibility for the investment defaulted to Peter. Regrettably, despite Peter's bona fide best endeavours, his investment approach was flawed. Claims of negligence were levelled against him.

The School's fidelity/professional insurers would deny the claim unless the School was prepared to take legal action against Peter.

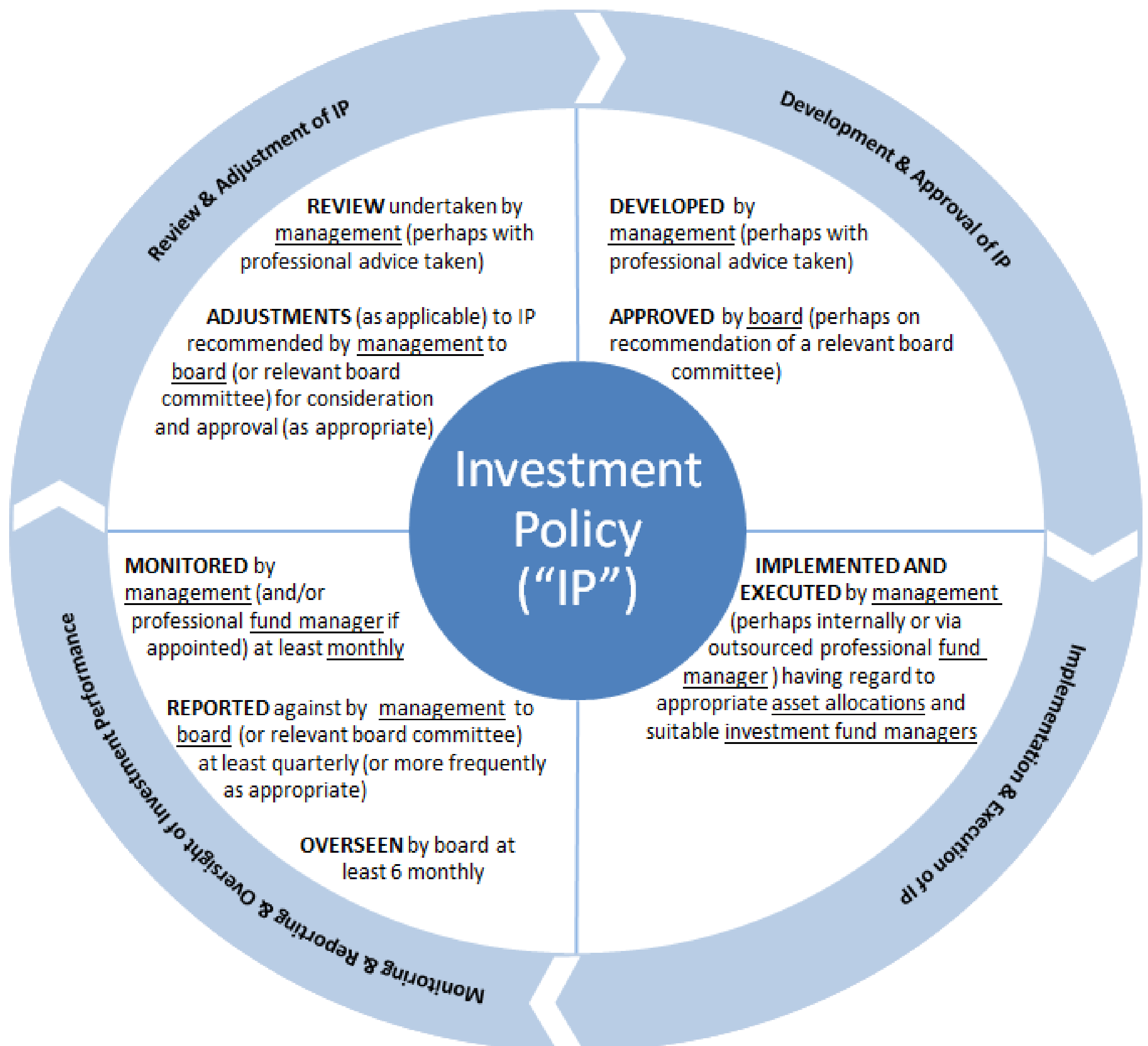
Professional legal advice to the School board advised a duty of care and diligence to prosecute a claim of negligence against Peter in order to claim under the insurance policy. Given Peter's highly respected alumni standing, the School community was deeply divided between recognising Peter's gratuitous best endeavours and exemplary service over many decades for the benefit of the School, and claiming insurance compensation for the School.

6 Investment Policy – Governance Framework

(a) Governance Framework

Table F below sets out a typical framework for the development, adoption, implementation, monitoring, oversight and review of an organisation's investment function.

Table F – Investment Policy ("IP") development, implementation, monitoring and review framework



(b) Functional roles and responsibilities

It is important to describe the respective roles, responsibilities and functions of each relevant person, board or committee involved. Appendix 4 describes the commonly accepted roles, responsibilities and functions of each of the following:

- Board;
- Board Committee;

- Management;
- Investment Advisor/Portfolio Manager;
- Custodians; and
- Investment Fund Managers.

(c) Oversight, Monitoring and Review

Appendix 5 describes aspects that should be taken into consideration with respect to the oversight, monitoring and review functions of an organisation's investment policy.

7 Conclusion

The importance of an organisation's financial capital cannot be overemphasised. It enables an organisation to achieve its strategic goals and is required to maintain "going concern" status and ongoing solvency.

The governance of the investment of an organisation's financial resources is vital if the organisation is to optimise its performance in accordance with its stated objectives and effectively manage its risks, including reputational and liability risks to the organisation and its board members and officers.

It is hoped that the concepts and guidance in this paper will assist boards and their management teams in appropriately developing, adopting, executing, overseeing, monitoring and reviewing their organisation's financial investments.

Appendix 1 – Investment Policy Statement of Purpose – sample	
1.	This Investment Policy forms part of the organisation’s governance related policies so as to document: (a) the organisation’s expectations, objectives and guidelines for the investment of its available financial capital; (b) the manner for monitoring the investment performance and continuing suitability of the organisation’s financial investments having regard to the organisation’s strategic needs; and (c) the manner for periodic review of the organisation’s investment policy and its implementation so as to assess its continuing “fitness for purpose”.
2.	This Investment Policy sets out the governance framework, systems, processes and practices by which investments are selected, executed, monitored and reviewed, with accountability for governance process integrity and performance outcomes.
3.	This Investment Policy is designed to assist all relevant personnel to meet their regulatory, fiduciary and contractual responsibilities concerning the organisation’s investment function by exercising prudential and professional care and diligence in the performance of those responsibilities.

Appendix 2 – Statements of strategic investment objectives	
A. Generic across most sub-funds	1. To assist in providing financial strength to better secure the future of the organisation and the achievement of its goals and strategic objectives. 2. To preserve and grow the long term real purchasing power of the funds under investment. 3. To strengthen the organisation's balance sheet and provide a degree of financial protection (or buffer) against negative financial impacts upon the organisation from time to time.
B. For short term working capital funds under investment	1. To optimise financial return without any material capital risk for the organisation's working capital reserves. 2. To ensure liquidity and assured access to the funds under investment. 3. To provide a cash and cash-like reserve to meet near term operational cash flow and/or budgetary needs. 4. To provide a fund to meet known capital commitments of the organisation.
C. For medium term funds under investment	1. To allow for the disciplined accumulation of financial capital which is surplus to the organisation's short term needs so as to provide capability and financial capacity for the organisation to fund capital works programs or strategic initiatives that are strategically desirable. 2. To provide capability and financial capacity for the organisation to fund [here describe relevant known proposed project or strategic initiative] should the organisation make a financial investment decision to proceed with the same.
D. For very long term/endowment style funds under investment	To provide for the establishment and growth of a long term or endowment-like fund in which access to capital withdrawals is restricted, and investment returns are retained and compounded within the fund, and with a view that once the fund has attained a balance of not less than [say $x], investment returns from the fund may be available to be applied towards: • [e.g. operational expenses of the organisation] • [e.g. scholarships] • [e.g. research grants] • [e.g. "n"]

Appendix 3 – Example of Asset Allocation Guidelines

Asset Class	Minimum	Benchmark	Maximum
Australian Shares	20%	25%	30%
International Shares	20%	25%	30%
Property	5%	5%	10%
Alternative markets	0%	0%	5%
Total Growth Assets	45%	55%	75%
Fixed Interest	15%	25%	30%
Cash	10%	20%	25%
Total Defensive Assets	25%	45%	55%

Appendix 4 – Respective Roles, Responsibilities and Functions

(i) [**Board**] The board and its members are reposed with overall fiduciary duties to act with care and diligence in the exercise of their role and functions on behalf of the organisation. Although board members may delegate certain functions to others, and although in certain circumstances they may rely on the advice and counsel of others in their decision making, generally they cannot abrogate their responsibilities. They must at least reasonably satisfy themselves of the competency and suitability of the delegate or adviser, and in the case of reliance upon advice from others, also satisfy themselves of the advice received and exercise their own judgement on the matter (including with the benefit of the advice).

Prudence, care, diligence and probity assurance are hallmarks of the responsibilities of fiduciaries in the performance of their roles.

In particular, the board should seek to enhance the assured delivery of the investment portfolio's risk-managed performance through a combination of capital preservation (and growth, as applicable) and investment returns. Although "investment performance" may be a readily measureable outcome, assurance of sustainable performance demands prudential care and diligence in structuring, applying, monitoring and reviewing the relevant systems, processes and practices of the investment policy.

(ii) [**Board committee**] A discrete board committee may be established to bring greater focus, applied experience and efficiency to the investment function (e.g. an "investment committee". Or that responsibility may be delegated to another standing board committee (e.g. the "audit, finance and risk committee"). Although such board committees may provide the primary interface between the board and management for the investment function, and may have some procedural responsibilities, generally they act in an advisory role to the board as a whole through recommendations arising from the committee's due deliberations. They rarely have an executive and determinative function on behalf of the organisation.

Organisations without the depth of financial investment skills and experience on their board, or even within their management ranks, may appoint external personnel who have such professional skills and experience to a discrete investment committee (which is accountable to the organisation's board or even its audit, finance and risk committee).

(iii) [**Management**] The board will usually comprise at least a majority of non-executive directors each of whom are largely dependent on information, advice and recommendations provided to them from management. Senior executives/managers within the organisation will also be reposed with fiduciary duties as "officers" of the organisation, in similar terms to board members.

Depending upon the capability and capacity of management, including skills, knowledge and experience in investment matters, management commonly:

- takes professional investment advice in the performance of its investment policy functions; and/or
- outsources certain of its functions to a professional investment portfolio manager.

The scope of activities of management in the performance of its investment policy functions are extensive including:

- developing an effective investment policy for consideration and adoption by the board, having regard to the organisation's goals, strategic and business plans, financial capital availability, cash flow needs and appetite for risk;
- implementing and executing the investment policy once approved including:
  - having regard to the terms of the policy and any constraints within it;
  - actual investment asset allocation;
  - appointment of investment fund managers;
  - integrity and assurance in funds flow and management;

Appendix 4 – Respective Roles, Responsibilities and Functions

- monitoring and oversight of investment fund manager performance as well as overall portfolio investment performance;
- accountability of reporting from investment fund managers to the organisation and to the board (including via any relevant board committee);
- analysis of all relevant information in authorising any tactical decision making concerning the investment portfolio to assure continuing conformance with the investment policy;
- analysing the investment portfolio and the overall actual percentages of asset allocations across the portfolio as a whole to determine whether or not the portfolio is within the respective asset allocation bounds of the investment policy (this can be an involved task where the portfolio is invested across a number of multiple asset class investment funds, for diversification benefits, and where the tactical allocation of assets within each fund may vary from time to time); and
- periodic reviews and recommendations concerning the investment policy, and its objectives in the context of the organisation's strategic and business planning and needs.

The board should ensure that the organisation's delegation of authority matrix, or similar instrument by which authority is delegated from the board to the CEO and management team, is appropriate having regard to the requirements of the investment policy.

It is easy to understand why management may wish to outsource some or many of these functions to a professional investment fund adviser or portfolio manager.

(iv) [**Investment Advisor/Portfolio Manager**]

Depending on the capabilities and capacity of management and the overall value and strategic importance of the investment portfolio, the organisation may engage the services of a professional investment adviser, or even a portfolio manager, to assist management. Such an adviser or manager would typically:

- provide recommendations to the organisation on investments and the selection of investment fund managers under the investment policy (and may also provide recommendations on the investment policy itself);
- assist in the monitoring and oversight of the investment portfolio and its performance;
- assist, give advice and make recommendations at the time of any review of the investment policy and its performance;
- provide analytical and comparative data and insights on the investment policy and its performance; and
- in the case of a "portfolio manager", provide investment executory services and even be empowered with some delegated discretionary decision making, depending upon the extent of the services agreed to be provided.

(v) [**Custodians**] In some cases a separate fiduciary entity may be appointed as a "custodian" or "trustee" to hold and be responsible for the safe keeping of the assets under investment (including any relevant certificates of entitlement to such assets). The custodian may act as the formal point of contact, and have administrative function for handling cash flow, between the organisation and the investment fund managers.

(vi) [**Investment Fund Managers**] As distinct from the overall portfolio responsibilities of the organisation's management team, or an outsourced professional investment fund adviser or portfolio manager appointed by management to assist with those responsibilities, each appointed investment fund manager is responsible for the optimisation of returns for that manager's own investment fund (within agreed mandated risk parameters and investment constraints prescribed in the terms and conditions applicable to that investment fund).

The activities of an investment fund manager generally include:

Appendix 4 – Respective Roles, Responsibilities and Functions

- managing assets within the investment fund consistent with the terms and conditions of their investment product statement, prospectus and/or service agreement with the organisation;
- exercising tactical investment discretion (buy, sell, hold etc) as to investments within the investment fund including execution of investment trades;
- exercising any voting or proxy discretions in connection with investments in the investment fund;
- communicating and reporting to investors all material changes to the fund and periodic reporting of investment fund performance;
- financial and tax accounting for the fund and any distributions, dividends or returns arising; and
- overall professional care, skill, prudence and diligence in the performance of the role and their responsibilities.

Appendix 5 – Oversight, Monitoring and Review of Portfolio		
Function	**When formally actioned**	**Aspect(s) to be considered**
1. Oversight and monitoring	Ongoing and with not less than quarterly reporting by management (or portfolio manager, if appointed)	• Alignment with and achievement towards investment policy objectives. • Continuing compliance with investment policy terms and investment fund manager mandates. • Investment performance: - overall portfolio against target Benchmark Return set - actual asset sector returns of the fund **relative to** average peer performance asset sector returns • Investment fund manager(s) performance. • Administration and accounting efficiency including costs of the portfolio under the investment policy (internal costs, external consultants fees and investment fund manager fees)
2. Review	Ongoing so as to be responsive to material needs that may arise (especially at times of greater investment performance and risk volatility), and with not less than annual formal reporting by management and review analysis by the board (perhaps via a relevant board committee)	• Alignment of investment policy with organisation's overall strategic plan, risk management plan and appetite for risk. • Continuing "fitness for purpose" of the investment policy having regard to changing organisational objectives or internal practices/accountabilities as well as changing externalities. • Material issues arising under the oversight and monitoring function which warrant attention as part of the investment policy review. • External outsourced professional advice and assurance as to these matters.