



Uniting Church in Australia
ASSEMBLY
Assembly Standing Committee

27-29 August 2021

DOCUMENT 13

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| Title | Assembly Investment Advisory Policy (Updated) For endorsement by Assembly Standing Committee |
| Type of Paper | For Decision |
| Assembly or ASC Minute | Regulation 3.7.5.2 |
| Consultation | AIAC – Assembly Investment Advisory Committee AFARC – Assembly Finance Audit and Risk Committee Assembly General Secretary and Associate General Secretary Assembly Agencies National Director, Strategic Finance and Administration |
| Purpose | For ASC to endorse the proposed update to the Assembly’s Investment Policy |
| Rationale & Findings Summary | <p>The AIAC is a Committee of AFARC, itself, in turn, a Committee of ASC and the Assembly. In conjunction with AFARC oversight, and in line with the AIAC charter, AIAC provides investment advisory services to the National Assembly and its Agencies. This is a critical function of ensuring the overall continued financial sustainability of the National Assembly and its agencies.</p> <p>This work of the AIAC, is guided to a significant extent by adherence to the Assembly’s Investment Advisory Policy. This includes the key consideration of selecting and evaluating investment managers (both internal and external managers to the wider Uniting Church). The proposed Assembly Investment Advisory Policy (attached) is updating the existing policy last approved by the ASC in 2012.</p> <p>Appendix A, attached to this report sets out at a high level, the context for the Policy, the main purposes, and objectives, as well as the rationale for the proposed updates. AFARC has reviewed the proposed Policy changes and supports the proposals.</p> |
| Attachments | The following are attached <ol style="list-style-type: none">1. Appendix A – Executive Summary2. Appendix B – Proposed updated Assembly Investment Policy3. Appendix C – Track changes version (comparing old vs new) |
| Proposals | That the Assembly Standing Committee: <ol style="list-style-type: none">1. Receive the report2. Endorse the updated Assembly Policy |
| Submitted by | Jason Bryan – Chair AIAC jasonpbryan@gmail.com 0404 876 434 Leo Iosifidis, National Director – Strategic Finance and Admin, leoi@nat.uca.org.au 0427 546 100 9 August 2021 |

Executive Summary

Background and Context

Ensuring Financial Sustainability & Going Concern Declaration

Like any organisation, the National Assembly, and its agencies (“the Assembly”), seek to ensure continued financial sustainability. Each financial year, when approving the relevant annual audited financial statements, the governance bodies of each entity within the Assembly are required to assess the going concern of each entity, and if satisfied make a declaration that the entity is able to meet its debts as and when they fall due (for the next 12 months period from the date of signing the accounts).

Financial Reserves

The Assembly seeks to ensure financial sustainability, which in addition to prudent budgeting, includes maintaining appropriate levels of financial reserves as well as earning returns from those reserves. The Assembly’s Investment Advisory Policy is a key document in setting out the parameters by which the Assembly seeks to invest its reserves, with the aim of maximising returns whilst working to protect against any significant loss of capital while at the same time ensuring sufficient working capital is available to fund ongoing operations.

Assembly Investment Advisory Committee “AIAC”

The Assembly Investment Advisory Committee “AIAC” role is to provide oversight and direction to the National Assembly and its agencies, including recommended asset allocations, in making investment decisions. The AIAC is comprised of experienced investment professionals having a wide degree of expertise in equities, debt, and other investment categories. The Committee’s expertise is critical to the entities in navigating the investment landscape as many of us are aware there are many risks and pitfalls to consider in making investment decisions.

Inherent Investment Structure – The Wider Uniting Church

The wider Uniting Church is a significant entity and has within its wider remit internal investment houses including Uniting Financial Services “UFS” as part of the NSW.ACT Synod, and U Ethical as part of the VIC.TAS Synod. The SA Synod and Qld Synod also have internal investment functionality.

ASIC Regulation

Both UFS and U Ethical manage various significant investment funds. These investment funds are generally aimed at sophisticated investors (being investors who invest in minimum \$500k lots) as well as managing the reserves of the many Uniting and affiliated entities (schools, aged care centres etc). Further information on these investment funds is easily accessible on their respective websites. Unlike external investment funds, these funds are not required to be ASIC regulated.

Australian Charities and Not-for-profits Commission (“ACNC”) Regulations

The Assembly, as registered charities, are subject to the ACNC regulations, which include the duty to responsibly manage financial matters (i.e., to seek out the best investments for the entities). We need to be mindful of this duty when deciding to invest internally or to seek out an external investor manager.

Generally, in a like for like environment the AIAC encourages investment funds to stay within the broader Church, for various reasons, including economies of scale and that it allows investment management fees to be earned by Church related entities as opposed to be absorbed by external market participants. This does however pose at an inherent level, a potential conflicts of interest

consideration which needs to be worked through. The AIAC Charter explicitly identifies this risk and has protocols in place for its management.

Whilst the Committee recognises that individual entities may seek to use external investors, the policy notes that the AIAC needs to endorse this move prior to the investments being made. Should, contrary to the position of the AIAC, an entity wishes to invest materially with an external investment manager -after consultation with AFARC, and after undergoing a process of dispute resolution - if still unresolved, the matter will then be referred to ASC for further discernment.

Proposed Changes to the Investment Advisory Policy

Against the above background and context, Appendix B sets out the proposed, updated, Investment Advisory Policy, while Appendix C sets out all the tracked changes version of the Policy. This allows the reader to clearly note the changes between the previous and proposed version of the Investment Policy.

In summary the main changes to the Policy are summarised as.

Risk Appetite

The proposed Policy now clearly calls out that ultimately the Risk Appetite of the Assembly sits at the overarching level set by the ASC. The Investment Risk Appetite is a part of the overarching Assembly Risk Appetite, with this Policy addressing those elements. Agency Boards determine their relevant appetites for risk, consistent with the overarching Assembly Risk Appetite, and this is a fundamental consideration for the AIAC – remembering the trade-off between risk and return.

This is reflected within various sections of the Policy addressing investment risk with guidance provided as to various ranges to be allocated to the different asset classes.

The Policy therefore provides agencies with flexibility to work within the overall investment risk appetite expressed by each entity, to allow them and their respective boards to fulfill their functions.

The AIAC considers that entities should, on balance, target a balance approached of say 50% growth and 50% defensive assets of an entity's total investable funds, with these asset categories in the main being counter cyclical to each other.

The Policy does provide some discretion for entities to deviate from this – eg to look to capitalise on investment conditions. In considering the above, it is important to note that AIAC will adopt a long-term perspective and that AFARC generally requires each entity, as part of the Assembly reserves policy, to have a minimum of 6 months working capital in a readily liquid form (cash and cash equivalents).

Benchmarks

The previous Policy clearly set out the targeted rate of return as 3.5% above the inflation rate. In the revised policy we have deliberately not set an absolute target as we consider this will fluctuate and to largest extent be driven by the investment appetite as determined by the Agency.

A mix with a highly level of growth assets, will have a higher benchmark, albeit with a higher level of volatility. Entities that take this approach need to ensure they have a tolerance for this higher volatility. Benchmarks regarding liquidity were also noted as key consideration by the entities and this has been addressed in the policy as well.

Environment

It is important to note that the Policy needs to be reflective of the current investment environment. In recent years, Central Banks have continued to stimulate economies and pour funds into their economies through the continual reduction in interest rates and more recently via the use of bond buybacks.

This has created an environment where bank and term deposit interest rates are now well under 1% and investors are needing to move funds into other assets to generate returns, which in turns risks creating significant asset price bubbles. We need to be watchful, as although inflation conditions are still currently benign this may change drastically.

The AIAC is very aware of this environment and with it, the risk of scope creep in an Agency's investment risk appetite as they seek out better returns from cash and desire the higher returns being achieved currently by growth assets.

Key principles

The AIAC is cognisant of the fact that it meets quarterly and its Charter notes that it is an advisory committee as opposed to an investment management committee. It notes that it does not have the bandwidth, nor is it desired, that the AIAC be an active manager of asset allocations in a dynamic way.

The previous Policy was written in a way reflecting this (previous) more direct investment approach. This policy has now been updated to reflect the preference that Investment Managers are appointed (following appropriate due diligence and rigorous assessment) to do this ("day to day") functionality (as opposed to the Committee). The AIAC is there to provide overarching advice and to consider investment risk holistically including matters like custodian risk which ensures there is significant separation of duties from Investment Managers to the custodian holding the investment assets (on behalf of the Agencies).

The AIAC is also extremely supportive of the investment principle of diversification, and it is through this lens that it views products like the Ethical Diversified Fund.

The Investment Policy continues to adhere to a strong ethical investment approach. The Policy retains the NSW.ACT Synod ethical investment policy, and this is reflected in the updated Policy document.

Most other changes to the Policy are proposed for reasons such as readability, contextual updating, and minor cosmetic improvements.

Proposals

It is proposed that the Assembly Standing Committee:

1. Receive the report
2. Endorse the updated Assembly Policy

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