ASSEMBLY INVESTMENT ADVISORY POLICY

UCA Assembly Limited ABN 14 000 007 447 and all related entities within the Uniting Church in Australia Assembly (“Assembly”)

Consistent with our charitable Purpose, Christian Values and Mission, the Assembly Investment Advisory Committee, through following the Assembly Investment Advisory Policy, strives to facilitate a reliable stream of investment income available to each Agency and entity of the Assembly within their respective parameters of risk and investment goals, whilst also at the same time seeking to build a capital base that will ensure a sustainable endowment for the future.

1. Introduction and Purpose

This Investment Advisory Policy is to be read in conjunction with the Assembly Standing Committee (ASC) approved Assembly Investment Advisory Committee Charter.

The purpose of the Assembly Investment Advisory Committee (AIAC or the ‘Committee’) includes to be a Committee of investment experts to advise on and oversee all Uniting Church in Australia Assembly (‘Assembly’) investments, to seek investment criteria input from each Assembly Agency or entity (‘Agency’), and to report back to Assembly, ASC, Assembly Finance, Audit and Risk Committee (AFARC) – as appropriate - and those Agencies on a regular basis. It is recognised that a commonality of approach may be required between Agencies to achieve the benefits of scale.

The function of the Committee, at the highest level, is to provide oversight and advice on the performance of the Investment Managers and investment products chosen by an Assembly Agency to manage the investment funds of the Assembly and its Agencies.

This Investment Advisory Policy:

- Establishes the Investment framework within which AIAC will operate when providing advice or overseeing investment decisions for Assembly and its Agencies;
- Has been designed to outline the principles for prudent and acceptable investments by the Assembly and its Agencies; and
- Seeks to generate prudent investment returns to support the work and mission of the Church.

It is acknowledged that the overall Risk Appetite across the Assembly and its Agencies is set at ASC, with individual Agency Boards responsible for articulating Agency risk tolerances for each Agency. The impact of risk tolerances on investment returns is interwoven throughout this Policy. Specifically, and as noted below, investment decisions for each Agency are to reflect the Agency’s stated investment objectives having considered Agency specific risk appetites and the advice of the Committee, and are supported by appropriate procedures and practices to give effect to relevant decision(s).

This (revised) Policy is proposed for approval by the ASC in July 2022.

2. Investment Mandate

The Committee is constituted pursuant to regulation 4.10.1(a) (ii) of the Regulations of the Uniting Church in Australia (UCA) in relation to “Assembly Property” (property) which includes “money, investments and rights relating to property”.

The Committee strives to provide investment advice as to Investment Managers, Asset Allocation and Investment Products to the Assembly and its Agencies to facilitate a reliable stream of investment income available to each Agency and entity of the Assembly, cognizant of their stated Risk versus Return parameters and investment goals, whilst also at the same time building a capital base that will ensure a sustainable endowment for the future.

The Committee will work with each Agency to determine the amount of Assembly property available for investment. In calculating available property for investment, each Agency will need to ensure sufficient cash reserves are maintained (in line with the Reserves Policy and as set with AFARC's guidance) and any funding requirements for any future budgeted deficits. It is important to note that AFARC may review the level of reserves required to be maintained – currently it is a minimum of six months of regular annual operating costs for each respective Agency, however this may need to be increased where required (including to allow for Government Acquittal funds, and to meet upcoming significant liabilities as they fall due) and in times of greater uncertainty. Debt and Hybrids, which are set out in Table 10, Portfolio Design, may form part of these six months reserves if they are readily convertible to cash.

3. Investment Principles

Investments must be managed with the utmost care, prudence and integrity and in compliance with the guiding principles and Regulations of the UCA.

The Committee must ensure that investments are consistent with the ethical values of the UCA and unlikely to cause any diminution in the UCA's reputation in local and overseas financial markets.

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

The Committee must consider various Investment risks (further detailed below) but should at least cover the following:

- Investment risks (including market risks, counterparty risk, credit risks, manager risks);
- Diversification/Concentration risks (over and under diversification);
- Objective/Performance risks (risk of failure to meet objective);
- Liquidity risks;
- Operational risks (including fraud and custody risks); and
- Environmental, Governance and Social risks.

With respect to Concentration Risk, the Committee will consider both the risk of concentrating investments in too few categories or classes, but also the concentration risk of the selected investors.

The Committee will conduct appropriate due diligence on all proposed Investment Managers. All investments should be held in products offered or managed by a UCA related institution (having regard to working capital – operational and transactional - requirements, income generation capabilities, and other relevant considerations and acknowledging that each Agency has different liquidity requirements and different income requirements e.g. capital growth versus income), unless extenuating circumstances can be articulated. An Agency preference to invest with a non UCA Investment Manager will require the Committee's approval, which will only be granted in exceptional circumstances.

When reviewing any proposed Investment Manager, the level of fees charged will be taken into consideration. High fees may erode returns and may also erode capital and must be monitored to ensure Agencies are receiving the best possible price from Investment Managers. When recommending a new investment, the Investment Manager needs to show that a comparison of fees has been completed relative to industry peers, and that net returns (after tax and fees) are commensurate with the risks. When comparing fees, it is important to note that different asset classes have different levels of fees depending on the complexity of managing the underlying assets. AIAC will review fees charged to ensure they are appropriate.

In the event of funds being deposited outside UCA, or debt securities purchased, then the counterparty will always be an Australian Prudential Regulation Authority (APRA) regulated Authorised Deposit Taking Institution.

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

4. Risk Profile

ASC has appointed AFARC to, amongst other things, oversee and evaluate the adequacy and effectiveness of the risk management frameworks adopted by Assembly Agencies. As a committee of AFARC, the Committee will assess and report to AFARC upon those aspects of Agency risk relevant to investments, having regard to Agency Risk appetite / risk – reward parameters. AFARC also engages directly with Agencies on matters of risk management.

Risk Management is addressed further below.

5. Prudent Person Rule

The Assembly and Agencies must comply with fiduciary responsibilities as required under the Australian Charities and Not for Profits Commission (ACNC), various state legislations, Church Regulations and other relevant requirements 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.

In exercising its powers, the Committee will consider a range of matters, including:

- The purpose of the investment and the needs and circumstances;
- 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 returns 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;
- The results of periodic review of investments; and
- The risk of not meeting investment objectives.

6. Investment Objectives

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

- To be in line with the investment risk tolerances as determined by an Agency, including defining an Agency's tolerance to investment volatility;
- To achieve an average annual investment return over the agreed benchmark over a five year rolling period (with the agreed benchmark varying based on the portfolio design selected in conjunction with the relevant Agency);

- To achieve and maintain a level of investment diversification that adequately spreads risk and minimises over-exposure to any one security, financial institution or other issuer;
- To hold, as appropriate, counter cyclical asset allocations to minimise and offset the impact of adverse market movements;
- To achieve adequate liquidity to meet day-to-day, medium and long-term cash flow requirements without incurring significant penalties for early redemption of investments; and
- To protect the original investment amount and to minimise the risk of incurring capital losses.

Measurement of investment returns will exclude occupied Manses and office accommodation. Specifically, the investment return over a single year is not a particular focus and assessments about the probability of delivering on long term objectives are best made using investment returns over at least five year rolling returns.

Each Agency's investment objectives and Risk versus Reward appetite (as determined by the relevant Agency Board or equivalent) shall be documented and distributed following regular meetings between the Committee (or its delegate) and Agency senior management and/or appropriate governance representatives (e.g. Chair and/or Treasurer). Investment decisions for each Agency are to reflect the Agency's stated investment objectives.

In documenting each Agency's investment objectives, the AIAC will adopt a structured consultation process, with relevant tools/templates to assist each Agency Board develop an appropriate risk/return profile.

Each Agency/Entity, with assistance from AIAC, will establish a risk/return profile, to be jointly reviewed annually, with reports and consultation provided by and with AIAC provided quarterly and on an as needs basis.

(Note - The terms risk appetite, risk tolerance, risk and reward appetite, risk vs return parameter and variations on these themes are used throughout this Policy. Definitions of these terms are set out in the ISO standards available at - https://www.iso.org/obp/ui/#iso:std:iso:guide:73:ed-1:v1:en)

7. Types of Investment Funds

Resources available to each Agency for investment purposes typically take a number of forms, including:

Unrestricted Fund Types

- 'Unrestricted Funds' - those funds held in the General Fund (also known as retained earnings), various reserves and capital funds. It does not include specific funds and endowment funds.

- Designated Funds' - funds set aside at Management's discretion for a stated purpose, which do not have any third party trust obligations attaching thereto.

Restricted Fund Types

- 'Restricted Funds' - funds whose principal is intended to be preserved until the occurrence of a specific event. 'Restricted Funds' as used in this Policy include both Specific Funds (to only be used for their specific purposes) and Endowment Funds (capital preserved funds). 'Restricted Funds' include Government specific purpose grant funds such as those received from Department of Foreign Affairs and Trade (DFAT) such as Aid monies or targeted grant monies. In addition, Australian

Taxation Office (ATO) approved Deductible Gift Recipient (DGR) Funds, are administered by Assembly or its Agencies or entities.

- ‘Endowment Funds’ - funds whose principal is intended to be preserved indefinitely.

- ‘Third Party Trust Funds’ - those funds received for investment and oversight by Assembly or its Agencies or entities.

Agencies, and the Committee, will be cognizant of the different Funds when considering investments.

8. External/Internal Investment Managers

In the normal course of business, the Committee shall oversee investment in funds (including debt, equity, infrastructure and Property etc) through an Investment Manager approved by the Committee and endorsed by an Assembly Agency Board. Selection of Investment Solution Providers, or Investment Managers, will take into account the following general criteria, as well as specific criteria relevant to each appointment:

- Extent to which the manager demonstrates a sustainable competitive advantage over their competitors in their specialist area;
- The fit between the Manager’s philosophy, style and investment process and the investment objectives and values of the Church;
- The strategies employed by the Manager to control financial and non-financial risk in their organisation; and
- The expected fees.

Before a recommendation to appoint an Investment Solution Provider is made, the Committee will undertake an objective review of potential Managers for the relevant mandate. The Committee will advise AFARC (and the relevant Agency) setting out the pertinent characteristics of the preferred manager and the reasons why the appointment is favoured.

In determining the allocation of capital to a Manager, relevant considerations will include:
- The proportion of the Fund allocated to the specific asset class for which the Manager is appointed, considered in conjunction with the proportion of active risk to be allocated to that asset class;
- The desired level of active management risk to be allocated to the Manager; and
- The capacity of the Manager to take on additional assets.

The Committee will review the performance of all appointed Investment Managers on an annual basis or as required.

9. External Advisors

The Committee may appoint at its discretion, and at a cost approved by the Assembly General Secretary, advisors in areas including:

(a) investment policy, including asset allocation, manager research, specialist asset classes;
(b) legal, including advice on the statutory and other obligations of an Agency or the Committee and assistance with contract negotiations with external parties;
(c) tax, including ensuring the tax obligations of an Agency investments are met and advising on the tax implications of particular investment structures; and
(d) audit, including advice on ensuring that the management controls in place within an Agency and its delegates, and around an Agency’s investments, are of sufficient standard.

Selection of advisors for these roles will take into account, among other criteria specific to the role:

(a) demonstrated commitment to best-practice portfolio management;
(b) the skills and experience the advisor brings to the role;
(c) the substance and viability of the advisor; and
(d) the costs that can be expected to be incurred.

10. Portfolio Design

The Committee will establish a long-term asset allocation consistent with each Agency Board's investment risk appetite, specific requirements of an Agency's investment mandate, and default investment allocation ranges.

The Table below identifies the categories of potential investments, a default or desired strategic allocation to different categories, and acceptable ranges for such investment allocations. Whilst ranges are provided for each asset allocation category, it is expected that the optimum mix would a 50/50 split between growth and defensive assets with an indicative upper limit of 75/25 growth/defensive split of each Agency's investable funds.

In this section, growth and defensive assets have the following definition and characteristics.

Growth assets are generally more volatile and have the potential to deliver higher returns over the long term. They are more susceptible to economic and market changes than defensive assets, and their market value can fluctuate quite widely over time. They are generally useful to meet medium to long term financial objectives. Capital appreciation is likely to be the more dominant source of total return over time.

Defensive assets are less volatile than growth assets and may deliver lower but more stable returns over the long term. They are often less correlated to growth assets and help to deliver diversification benefits. They are generally lower risk and often used to meet short to medium term financial objectives. Income received is likely to be the more dominant source of total return over time.

Assets are grouped in this way for better understanding of their anticipated behaviour through economic and investment market cycles. It is important to note that "growth vs defensive" is a continuum and largely depends on where assets sit on the risk-return spectrum. There may be assets that exhibit some characteristics of both. Grouping assets into growth and defensive provides a good way to construct portfolios to meet long term risk and return objectives.

The Committee will consider investments in broad categories, which have common characteristics, rather than in more narrowly defined asset classes. This minimises the risk of overlooking a potentially attractive investment opportunity simply because it does not meet the narrow definition of an approved asset class. It is noted that within each of these broad categories, there are multiple subcategories (e.g. equities will have both domestic and international components etc). The Committee envisages a high degree of substitutability within these categories but will operate within relatively narrow limits between the categories.

Table: Categories of Potential Investments, Default Allocations and Allowable Ranges,

Category	Definition	Sectors Covered	Strategic Allocation %	Ranges %
Listed equities (NB: No Private Equity Allowed)	Exposure to corporate enterprise gained through public markets	Australian equities, global developed market equities, global emerging market equities	40	0 - 75
Social Impact Bonds (SIBs)/Alternatives	SIBs provide a funding mechanism to enable social service providers	Social Services	2.5	0 - 5
Debt (including Bonds & Hybrids)	Exposure to the credit component of interest-bearing securities which provide coupon rates of return. Hybrids, although classified as debt, may convert to equity	Government and other fixed interest securities extending to mortgages, high yield credit and corporate loans	40	0 - 60
Tangible assets	Exposure to investments where the return comes primarily from the income return on a physical asset	Real estate such as office accommodation purchased directly. *[Note no other direct tangible assets investments are permitted].*	7.5	0 - 20
Cash	Exposure to domestic, very short duration fixed interest investment with tightly managed credit risk	Australian bank bills and deposits with approved institutions.	10	0 - 100
TOTAL ALLOCATION			**100**	

As noted, the table above sets out the expected default allocation to these broad categories over the long term. This default portfolio represents the level of exposure to each of the broad asset classes which might, on average, be held over the long term. The default represents a broad guide to be followed by the Committee and Agencies. 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 target allocation is regarded as an equilibrium exposure to the investment categories rather than a weighting which is specifically targeted. It is recognised that Agency by Agency, the target allocation may vary due to the differing terms and types of funds available to invest. Regular meetings between Agencies and the Committee will ascertain the appropriate mix in respect of each Agency.

Given the above ranges, Agencies have a discretion to allocate their investment portfolio (having received advice from the Committee) between growth/defensive assets. Agencies having a higher investment risk appetite would have a higher proportion of their portfolio in growth assets vs defensive assets (such as a 75%/25% allocation).

(Note: - it is very difficult to be prescriptive in relation to rates of return as targets and expectations are nominally based on historical returns, and potentially varying levels of risk tolerance. Thus, this Policy avoids prescribing specific target returns, as noted above in Section 6 and which is addressed further below.)

11. Risk Management

The investment mandate requires the Committee to work with Assembly and Agencies to, amongst other things, have regard to maximising return over the long term and taking appropriate but not excessive levels of risk. The investment strategy adopted by the Agencies and the Committee, and in particular the mix of growth versus defensive assets, will have a significant influence on the returns generated. Investment strategy is primarily influenced by the investment objectives of the Agency and the time horizon over which these are to be achieved.

In accepting the investment objectives set by the Assembly Agencies, the Committee acknowledges that this means that a proportion of investments will need to be held in assets carrying market risk. This means there will be volatility of returns over shorter periods. The Committee's policy is that the mix of assets within the Agency's Funds 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 Committee will operate a flexible asset allocation (as per the above discussed "ranges") which reflects the Committee'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.

12. Structuring of Investments

In implementing an investment strategy, the Committee invests through various jurisdictions and investment vehicles for a variety of commercial, legal and tax reasons. Properly structuring investments is essential to maintaining rights and entitlements, including the benefit of sovereign immunity for tax purposes in certain jurisdictions.

13. Risk Management Controls

The Committee, in conjunction with Assembly and Agency Management, will apply appropriate risk management controls over the investment advisory process, which will include:

- Maintaining appropriate policies, delegations, authorities and procedures;
- Management reporting; and
- Internal and external Audit reviews as required.

As noted, AFARC regularly monitors AIAC and Agencies' activities.

A key control is the separation of Investment Managers from the custodian of the assets. This will ensure all transactions initiated by the investment managers are tracked and reported accurately.

All investment funds are required to meet all legal and regulatory requirements. All investment funds will also need to provide audited financial statements annually to provide the Committee, and the relevant Agency, with assurance as to the existence, valuation and any other underlying commitments relevant to the investments held. It is noted that the AIAC regularly reports to AFARC and likewise, AFARC regularly reports to the ASC.

14. Diversification

The Committee 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. Even if funds are to be invested wholly in Bank Deposits/Securities or UCA institutions, diversification across counterparties is desirable; and
- no more than 5% of each Agency's and Assembly consolidated funds may be invested in one security without Committee approval even if within delegations. Where differing types of investments are held in the same entity (i.e. equity and hybrid), then these are to be aggregated when considering concentration risk. Note for the purposes of this limit, funds held within UFS bank accounts are considered deposits and not securities.

Where funds are being placed into a Managed Fund, this diversification rule is over-ridden if the Fund Manager has an appropriate diversification rule in place.

15. Interest Rate Management

Seeking higher interest rate and investment returns involves the employment of appropriate risk management techniques. 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. Notwithstanding, appropriate consideration should be given to assessing alternative strategies and securities as well as market conditions and pricing.

16. Investment Portfolio Flexibility

In addition to the above discussed Risk Management Controls, it is noted that in certain circumstances, securities issued by entities rated by a recognised credit ratings agency may not themselves be explicitly rated. The Policy allows for the Prudent Person considerations to reflect that such investments are qualifying investments.

The Policy allows for transitional arrangements from pre-existing portfolio holdings (such as a bequest) or in specie transfer of assets into the portfolio. In such cases, compliance with the Policy must be complete within a period of 18 months.

17. Custody Process

All investments held by the Assembly or the Agencies, shall be in the name of UCA Assembly Ltd as the trustee for Assembly and its relevant Agency, 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 the Assembly for each such investment.

The Assembly office, through the work of the Finance and Administration team, is responsible for executing investment decisions made by each respective Agency. All investment changes must be made with reference to the Assembly's internal controls policies including delegations or authority, separation of duties, and dual authorisations.

18. Ethical / Social Responsible Investment Considerations

The Committee and delegated officers will always consider the ethical implications of all investments. The Committee has adopted the published UCA NSW.ACT Synod Ethical and ESG[1] Investment Policy Principles – updated from time to time - as its benchmark. The Principles incorporate both positive and negative screening as well as active engagement, and align with the United Nations Sustainable Development Goals – supported by ongoing monitoring, and active management and governance.

The Committee will be cognizant of the published Ethical and ESG Investment Policy when providing advice to Assembly and its Agencies.

19. Gearing, Derivatives and Hedging Policy

The Assembly or Agencies will not directly borrow or enter into derivatives or hedging contracts for the purposes of managing the Funds, nor will the Committee advise such practices.

However, it is acknowledged that these activities may occur indirectly through the managed products the designated Investment Managers might invest in as part of managing the Funds. Should this occur, the investment managed by the investment managers cannot be net geared.

20. Review and Publication

This Policy shall be subject to review at least annually, with results thereof reported to AFARC and / or ASC as appropriate.

This Policy may be amended by the ASC after it has received advice from the Committee and AFARC.

The Policy will be available upon request to the ASC, Agencies or entities of Assembly or their governance bodies.

Approved by the Assembly Standing Committee 15 – 17 July 2022

DOCUMENT HISTORY

- *Approved by Assembly Standing Committee 24 – 26 August 2012*
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[1] ESG: Environmental, Social and Governance