

# AAOD Legacy Fund Ltd

## Investment Strategy



### 1. Background

AAOD Legacy Fund (the Trust) is a Public Ancillary Fund settled on behalf of Australian Age of Dinosaurs Limited (AAOD), a not-for-profit public company limited by guarantee. The Trust is intended to operate as a public fund and members of the public are invited to contribute to the fund.

The Trustee of the Trust is AAOD Legacy Fund Ltd (the Trustee), a not-for-profit public company limited by guarantee. The Trustee must maintain a fund for the Trust, referred to in the Trust Deed as the Gift Fund, (the Trust Fund) with a separate bank account. The Trustee holds the Trust Fund on the Trust's behalf.

AAOD and the Trustee both hold Australian Taxation Office endorsements for charitable tax concessions and as deductible gift recipients.

The Trustee has an honorary Board (the Board), the members (Directors) of which bring expertise in a range of fields including business and financial management. Directors volunteer their time to oversee the functions of the Trust.

### 2. Purpose of the Trust Fund

The Trust Fund has been established, and donations and bequests are requested from members of the public, with the intention of building and providing an investment portfolio which will provide ongoing and permanent income for the general operations of AAOD and to support new capital projects and replacement of capital assets.

### 3. Investment objectives

To, as far as practicable while complying with the minimum annual distribution requirements of the Public Ancillary Fund Guidelines 2011 (the Guidelines), preserve the capital of the Trust Fund available for investment and protect the capital against inflation over the long term.

To protect the capital and income of the Trust Fund from the risk of investments that result in loss.

The Board will set an income target by 30 November each year in respect of the next financial year and monitor progress towards achieving the income target at least every three months.

### 4. Definitions

**Bequest** – the gift of any asset or right given by a donor in the donor's will including a legacy, residuary bequest, pecuniary interest, contingent bequest or specific bequest

**Capital** – includes receipts or accumulations of movements in asset prices, redemptions of asset values and realised capital gains (or losses)

**Cash funds** - funds received by the Trust as cash or by cheque, credit card or internet banking

**Credit rating** – the method used is the current Standard and Poor's Issuer and Issue Credit Rating as set out in the Investment Procedures

**Donation** - a voluntary contribution by a donor of cash, real property, goods or services

**Guidelines** - The Public Ancillary Fund Guidelines 2011, as amended or superseded

**Income** – includes receipts or accumulations of dividends, interest, trust distributions, rents and similar cash flows

**Real property** - land and the buildings on it along with its natural resources including an interest by whatever tenure

**Trust Fund** – the total endowment or legacy fund operated by the Trustee, including pooled donations through sub-funds but operated and invested as one fund in order to generate annual income for distribution to AAOD; it is added to by bequests, other donations and income

**Retained earnings** – the accumulation of net surpluses, or losses, of income over expenditure

**Sub-fund** – a fund, within the Trust Fund, holding a donation or donations from one specific donor (or group of donors or corporate entity) which may have its own name

**Tagged funds** – cash funds which are bequested or donated with a specified constraint on their use and accepted by the Trustee on that basis

## 5. Investment Strategy

The Guidelines require AAOD Legacy Fund Ltd, as Trustee of the AAOD Legacy Fund Trust, to prepare and maintain a current Investment Strategy setting out the investment objectives of the fund and detailing the investment methods that the Trustee will adopt to achieve those objectives.

The Investment Strategy must reflect the purpose and circumstances of the fund and have particular regard to (but not limited to):

- (i) the risk involved in making, holding and realising, and the likely return from, the fund's investments, having regard to the fund's purpose
- (ii) its expected cash flow requirements (including distribution requirements)
- (iii) the composition of the fund's investments as a whole, including the extent to which the investments are diverse or involve the fund being exposed to risks from inadequate diversification
- (iv) the liquidity of the fund's investments, having regard to its expected cash flow requirements (including distribution requirements)
- (v) the ability of the fund to discharge its existing and prospective liabilities
- (vi) the investment requirements imposed by State laws.

All decisions relating to the Trust's investment of the Trust Fund are the legal responsibility of the Trustee, through the Board.

### 5.1 Introduction

When implementing the Investment Strategy, the following factors should be considered:

- (i) Duration – tagged funds are to be invested for the full term that they are not required for expenditure on their purpose, if it is a one-off purpose rather than on-going purpose
- (ii) Liquidity – due recognition should be given to investments that have sufficient liquidity to allow access to funds before maturity, eg for implementation of the annual distribution plan
- (iii) Non-cash assets – the options and risks involved with holding, realising or gifting to AAOD any non-cash donations or bequests will be assessed on a case-by-case basis in accordance with the Trustee's Policies.

### 5.2 Investment Portfolio

The Board sets and regularly reviews the asset mix for funds under investment with a conservative and prudent framework.

Investments, wherever possible, will be direct holdings in the name of the Trustee. Custodial holdings will be considered, with the Trustee remaining the beneficial owner of the assets, where there are satisfactory safeguards in place.

The asset mix may include cash, fixed interest, Australian and international equities and securities, listed property, real property and any other non-cash assets which the Board resolves to hold.

Any donated or bequested real property or other non-cash assets held unrealised will each be considered a separate sub-fund and outside the investment limits and guidelines set out below.

### 5.3 Initial funds and approved cash investments

Until the Trust Fund balance reaches \$200,000 cash all funds are to be invested in cash investments with Australian-based banks that have a current Standard and Poor's credit rating of A or higher.

Once the Trust Fund balance reaches \$100,000 cash, the maximum exposure to any one bank is to be 33% of the total cash investments.

Once the Trust Fund balance exceeds \$200,000 cash all funds are to be invested with a strong emphasis on maintaining the percentages shown below.

Investment	Investment Ranges	Range mid-point
Cash	5-21%	13%
Fixed Interest	40-56%	48%
Australasian equities	10-18%	14%
International equities	15-25%	20%
Listed property	0-10%	5%
Total		100%

### 5.4 Performance guideline for cash and fixed interest portfolio

When placing an investment or reviewing an existing investment for cash or fixed interest, the following bank bill rates must be considered to assess the adequate performance of the investment.

Investment	Guideline
Cash	90-day bill rate
Fixed Interest	90-day/1 year/3 year bill rates

### 5.5 Approved fixed interest investments

Each investment in fixed interest can only be made if it meets the following conditions and does not exceed the maximum percentages stated below.

Investment	Condition	Maximum % of fixed interest portfolio with a single issue
Australian Government Securities		100%
Australian Government Guaranteed Securities		20% *(+5%)
Issues by corporates	Minimum credit rating of A	10% *(+2.5%)
Issues by corporates	Minimum credit rating of BBB-	5% *(+2.5%)
Issues by corporates	Unrated and rated below BBB-	Nil
Deposits and securities of Australian Registered Banks (more than 90 days)	Minimum credit rating of A	25% *(+5%)
Debentures and deposits in Building Societies and Finance Companies		Nil

\* In the event of a significant change in the value of the total portfolio, the maximum % is permitted to increase for a period of three months. If there is still a breach of the maximum % after three months, the Board will be asked to note the breach and approve the recommended actions.

## 5.6 Investment limits for fixed interest investments

The total funds invested as fixed interest must comply with the following conditions.

Credit rating	Percentage of total cash/fixed interest portfolio	Maximum exposure to any one organisation, to the lesser of
A- or above	Minimum 80% *(-5%)	33% or \$1,500,000
BBB (incl BBB+ & BBB-)	Maximum 20% *(+5%)	20% or \$500,000
Unrated and below BBB-	Maximum 0%	Nil

\* In the event of a significant change in the value of the total portfolio, the percentage of BBB (including BBB+ & BBB-) credit rating of the total cash/fixed interest portfolio is permitted to increase for a period of three months. If there is still a breach of the BBB (including BBB+ & BBB-) maximum percentage after three months, the Board will be asked to note the breach and approve the recommended actions. Note: 'BBB-' is considered lowest investment grade by market participants, and new investments at this level will be subjected to a higher level risk-assessment.

## 5.7 Equity portfolio construction guidelines

### Equity Portfolio

- (i) The Advisor must construct a portfolio that will provide a broad exposure to the respective markets in both International and Australasian equities within the stipulated parameters
- (ii) The Advisor is required to adopt investment strategies that are relatively passive in nature with a medium to long-term focus
- (iii) No individual sector weighting should exceed 20% of the portfolio and no stock should exceed 5% of the portfolio
- (iv) It is envisaged that ongoing investment and transaction fees will be minimal, therefore the Trustee will seek to negotiate a reduced fee with the Advisor
- (v) The Trustee will from time to time, if appropriate, provide guidance to the Advisor with respect to the balance of income versus growth stocks to be held in the portfolios.

### Australasian Equity Portfolio

Objective:

- The strategy should seek to capture no less than the returns provided by the ASX 200 and NZX 50.

Portfolio structure:

- Preference should be had for companies with diversification, competitive advantages, optimal debt levels and low levels of competition.

### International Equity Portfolio

Objective:

- Within the constraints provided by these guidelines the portfolio should aim to capture the average annual return provided by the MSCI World Index.

Portfolio Structure

- Funds should be allocated to geographic regions /indexes on the following basis. Tolerance ranges are +/- 15%.
  - 45% North America
  - 20% Europe
  - 10% UK
  - 25% Asia/Pacific and other
- No single investment sector (eg healthcare and energy) will represent more than 25% of the portfolio. The Advisor will ensure that optimum diversification in each geographic region is achieved at the lowest possible cost.

## **5.8 Investment limit for equity investments**

The maximum exposure to any one company will be 5% of the total investment in equities, with the exception of widely diversified listed investment companies where the limit is 40%.

## **5.9 Finance and investment**

The Board sets AAOD Legacy Fund Ltd's Policies and Procedures and keeps these under constant review. To this end, the full board Board acts as a Finance and Investment Committee and is responsible for:

- (i) the financial and business affairs of the Trust
- (ii) the design and execution of an asset allocation strategy
- (iii) the investment policy, process and performance of the Trust
- (iv) considering any strategic directions in the area of finance and investment and identifying their financial, legal, physical and human resource implications
- (v) the financial and investment performance of the Trust and ensuring the investment guidelines and objectives are met.

The Board reviews the management accounts and Trust Fund performance at least once a quarter.

On an annual basis the Board conducts a formal review including:

- (i) full portfolio review and asset allocation
- (ii) review of investment policy, process and performance
- (iii) consideration of future direction, strategy and performance objectives, including risks and cash flow
- (iv) review of board performance.

## **5.10 Environmental, Social and Governance (ESG) investment guidelines**

The Board believes that good corporate governance is important and seeks to promote sound environmental, social and governance practices. For those investments which are directly held by the Trustee (ie not in a unit trust or other pooled investment entity) the Trust promotes good governance and ESG principles by specifically excluding Australasian and international equities where the company's dominant purpose or product or its way of operating is considered unethical by the Board.

## **5.11 Risk**

All investors face risks, but because of its long-term time horizons and tax exempt status the Trust's investment profile is different from superannuation or personal monies. The Trustee needs to take into account inflation risk (the possibility of losing real value of income over time) and income volatility.

The Trust uses diversification of investments to reduce the volatility of investment returns and reduce the risk of poor returns: diversification across markets and regions as well as investing in a range of asset classes.

However, due to the tax exempt status of philanthropic trust funds, the benefits of diversification need to be balanced against the reduction in income from Australian shares paying franked dividends.

The Trust aims to manage investment risk in a number of ways, including:

- (i) diversification including investment across asset classes, investment across a number of industries and sectors, monitoring exposure to various countries and currencies, regular review of asset allocation strategy depending on economic conditions and continuous portfolio review
- (ii) guidelines to limit the maximum exposures to any single investment, industry sub-groups and company market capitalisations
- (iii) use of a range of fixed income investments with varying lengths of maturity.

## **5.12 Fees**

The Trustee does not charge the Trust Fund any investment fees, sub-fund administration fees or any other fees.

The Board will agree fees with any Professional Investment Advisor it engages covering investment related costs including investment advisory fees, investment administration and accounting fees, unit pricing and registry charges. In such a case, all investment returns would be expressed net of all investment fees.

## **6. Auditor**

The Board has resolved to appoint Walsh Accounting of Barcaldine, Queensland as auditor for the Trust Fund and the Trustee.

## **7. Accountants**

The Board has resolved to appoint O'Regan & Partners of Winton as accountant for the Trust Fund and the Trustee.

*Adopted by the Board 19 February 2015*