



Investment Policy

Purpose

The Investment Policy Statement outlines the investment objectives of Bowls Victoria, Inc., the types of investments allowed, and the operating and reporting mechanisms required to manage the invested funds.

Scope

This policy applies to the investment of funds by Bowls Victoria, Inc. and the Investment Managers appointed by the Board.

Policy

Introduction

The Bowls Victoria, Inc.'s (BV) investment portfolio was created from the proceeds of the sale of Bowlers House. The funds are currently invested to provide BV financial support to cover the cost of now rented premises, compensate for lost income from the prior sub-tenancy and to achieve capital growth.

The purpose of this Investment Policy Statement is to establish guidelines for BV's investment portfolio. The statement also incorporates accountability standards that will be used for monitoring the progress of the portfolio's investment program.

Investment Objective and Spending Policy

- A. The investment portfolio is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual income in support of BV.

In addition to the BV Investment Portfolio, derived from the proceeds of Bowlers House, excess operational funds may be invested from time to time in short term investments of high quality and low risk.

- B. For the purpose of making withdrawals, the BV investment portfolio shall make use of a total-return-based spending policy, meaning that it will fund withdrawals from net investment income to support operations. Net realized and unrealized capital gains will be quarantined to preserve the value of the portfolio in line with market appreciation and against inflation.
- C. The withdrawal of BV investment portfolio assets will be permitted to the extent that such withdrawals do not exceed a level that would erode the investment portfolio's assets over time.
- D. The Finance, Audit and Investment Review Committee (FAIR) will seek to reduce the variability of annual distributions by factoring past spending and investment portfolio asset values into its current budget and spending decisions. The FAIR will review its spending assumptions annually for the purpose of deciding whether any changes therein necessitate amending BV's spending policy, its target asset allocation, or both.
- E. Periodic cash flow, either into or out of the investment portfolio, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy below.

Portfolio Investment Policies

Asset Allocation Policy

- A. The FAIR recognizes that the strategic allocation of investment portfolio assets across broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and investment portfolio asset value stability.
- B. The FAIR expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the FAIR wishes to retain flexibility with respect to making periodic changes to the investment portfolio's asset allocation, it expects to do so only in the event of material changes to the investment portfolio, to the assumptions underlying BV's spending policies, and/or to the capital markets and asset classes in which the investment portfolio invests.
- C. Investment portfolio assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of equity investments will be to maximize the long-term real growth of the investment portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of the portfolio's equity investments.
- D. Cash investments will, under normal circumstances, only be considered as temporary investment portfolio holdings, and will be used for BV liquidity and spending policy needs or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed income asset classes.
- E. Outlined below are the long-term strategic asset allocation guidelines, determined by the Board to be the most appropriate, given BV's long-term objectives and short-term constraints. Investment portfolio assets will, under normal circumstances, be allocated across broad asset and sub-asset classes in accordance with the following guidelines:

Asset Allocation - Portfolio One (70/30)

Risk Profile: Conservative
Portfolio Value: \$5,800,000

Asset Type	Current allocation	New allocation
Risky assets		
Australian equities	18%	16%
Developed Market Equities	16%	9%
Emerging Market Equities	0%	0%
A REITs	7%	5%
Residential Property		
At Risk Debt	28%	3%
Hedge Funds	2%	0%
Total:	71%	33%
Defensive assets		
Secure Debt	21%	60%
Cash	8%	7%
Total:	29%	67%
	100%	100%

Source: Hamilton Wealth Updated Proposal dated 12 January 2015

- F. To the extent the investment portfolio holds investments in non-traditional, illiquid, and/or nonmarketable securities including (but not limited to) venture capital, hedge funds, and real estate investments, these assets will be treated collectively as alternative investments for purposes of measuring the investment portfolio's asset allocation.

While not specifically considered within this policy, alternative investments may comprise no more than 5% of the total investment portfolio assets.

Diversification Policy

Diversification across and within asset classes is the primary means by which the FAIR expects the investment portfolio to avoid undue risk of large losses over long time periods. To protect the investment portfolio against unfavourable outcomes within an asset class due to the assumption of large risks, the FAIR will take reasonable precautions to avoid excessive investment concentrations.

Specifically, the following guidelines will be in place:

- a) Except for fixed income investments explicitly guaranteed by the Australian government, no single investment security shall represent more than 5% of total investment portfolio assets.
- b) Except for passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 10% of total investment portfolio assets.
- c) With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).
- d) International equities (hedged and unhedged) must not at any time, exceed greater than 25% of the investment portfolio.

Maturity Structure

- a) All securities shall mature within 24 months from original settlement date
- b) Average life of the portfolio shall not exceed 12 months
- c) At least the greater of 5% of the investment portfolio or \$0.25 million shall mature within 35 days

Rebalancing

It is expected that the investment portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes.

The investment portfolio will be rebalanced to its target normal asset allocation under the following procedures:

- a) The investment manager will use incoming cash flow or outgoing money movements of the investment portfolio to realign the current weightings closer to the target weightings for the portfolio.
- b) The investment manager will review the portfolio semi-annually (30 June and 31 December) to determine the deviation from target weightings.

During each semi-annual review, the following parameters will be applied:

- 1) If any asset class (equity or fixed income) within the investment portfolio is +/-5 percentage points from its target weighting, the investment portfolio will be rebalanced.
 - 2) If any investment within the portfolio has increased or decreased by greater than 20% of its target weighting, the investment will be rebalanced.
- c) The investment manager may provide a rebalancing recommendation at any time.
 - d) The investment manager shall act within a reasonable period to evaluate deviation from these ranges.

Other Investment Policies

Unless expressly authorized by the FAIR the portfolio investment managers are prohibited from:

- a) Purchasing securities on margin or executing short sales.
- b) Pledging or hypothecating securities.
- c) Purchasing or selling derivative securities for speculation or leverage.
- d) Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of the BV Investment Portfolio.

Monitoring Portfolio Investments and Performance

The investment manager is expected to be available to meet with the Finance, Audit and Investment Review Committee (FAIR) each quarter (January/April/July/October) to review the investment portfolio structure, strategy, and investment performance.

The FAIR will monitor the portfolio's investment performance against the portfolio's stated investment objectives quarterly as follows:

- A. The composite investment performance (net of fees) will be judged against the investment portfolio's absolute long-term real return objective.
 - 1) The strategy for the short-term investment funds is to achieve a rate of return, net of investment fees and charges, equal to or greater than the UBS Australian Bank Bill Index over all time periods; and
 - 2) The strategy of the investment of long-term funds is to achieve an annual earning rate of at least three percentage points above inflation over rolling 8 year periods, with a probability of no less than 1 in 8 years of a negative nominal annual return and targeted income of 5% - 6% per annum.
- B. In keeping with the investment portfolio overall long-term financial objective, the FAIR will evaluate the portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling three-year basis.
- C. Investment reports shall be provided by the investment manager on a monthly basis or as more frequently requested by FAIR.

Utilisation of the Investment Portfolio and the Income Derived

- A. Based on a Discussion Paper, the Board resolved on 5 March 2020, for the CEO to be alert to property opportunities that would be consistent with the Board's philosophy and mandate for the **future** use of these funds. The CEO can co-opt Board members with the necessary skill sets to assist in evaluating any opportunities that present themselves.
- B. The Board has approved maintaining the current practice with the Investment Portfolio as a source of income or funds available for Strategic Action Plans, with a cap on the expenditure not to exceed 4%-5% of the portfolio value in any one year. This practice is to be reviewed, reaffirmed or varied annually.

Review History and Version Control

The BV Investment Policy will be reviewed annually.

Version	Prepared	Reviewed	Approved By	Date Approved
2.0	Finance Director 21 February 2020	Finance, Audit and Investment Review Committee (FAIR)	Board	30 April 2020