

Financial Governance and Investment Policy

**Ecological Society of Australia
Incorporated.**

9th September 2011

Acknowledgement

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In particular we thank

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Executive Summary

The purpose of this document is to provide members of the Financial Governance Working Group (FGWG) of the Ecological Society of Australia Incorporated with a policy and integrated procedures to assist them in carrying out their duties relating to the financial management of the ESA. Policies and procedures documented will be used in conjunction with decisions relating to:

Prudent and best use of invested funds,

Current and expected income streams,

The implementation of the strategy outlined in the 5 year business planning cycle as determined by ESA Council,

Providing clear evidence of financial governance to current members, prospective members and government bodies.

The Need for this Investment Policy

Aligning Money Invested with Operational Requirements

This investment policy is designed to consider the income and capital objectives of the organisation and how invested funds and other sources of income contribute to these goals..

This policy will also act as a “job description” for investment professionals engaged by the Society to facilitate the needs of the organisation by increasing the likelihood of investment portfolios meeting specific objectives and goals.

The desired outcome is for the investment portfolio to make a positive and meaningful contribution to the ESA’s capacity to deliver the programs that are core to its vision.

Prudential Requirements

The ESA Council has ultimate responsibility for the sound and prudent management of the organisation.

This policy addresses these prudential requirements, also ensuring any other legal duties are met.

Delegation of Authority & Responsibility

This policy and procedure document provides the framework for numerous decisions. Some examples may include:

- The key purpose the ESA’s funds as outlined in the ESA Business Plan
- Regularity and mechanism of review for the investment policies
- Responsibility and mechanism for appointing and monitoring the investment manager/s
- The level of discretionary authority granted to the investment manager/s
- For non-discretionary elements of investment management, responsibility and mechanism for timely response to developing investment opportunities and threats.

An effective investment policy will also consider the delegations of authority and responsibility for all investment related decisions, including review of the policy itself.

The Mission & Vision of ESA

The broad mission of the Ecological Society of Australia is:

To promote the ecological discipline in all its forms, to support the application of the principles developed in ecology to protect and conserve the biosphere, and to promote the exchange of ecological knowledge for educational purposes and cultural development.

The key objectives and activities of the ESA from the current Constitution are:

1. Promote the scientific study of all organisms in relation to their natural environment;
2. Promote the application of ecological principles to the development, utilisation and conservation of Australian natural resources;
3. Advise governmental and other agencies in matters where the application of ecological principles may be of assistance;
4. Foster the conservation of biological diversity and the services it provides;
5. Facilitate the dissemination, exchange and application of ideas and information on ecological matters both among ecologists and with other professional disciplines; and
6. Encourage high professional and ethical standards among our members and other ecologists.

The Broad Investment Philosophy of the ESA

The broad investment philosophy requires the development and maintenance of short, medium and long-term strategies that provide continuity of financial management in a manner consistent with current precedents and the objectives, priorities and overall vision of the Society.

The Society will:

1. Link strategic cash flow with capital growth over the medium to long term.
2. Maintain diversified portfolios of planned investments for specific purposes.
3. Take advice regarding the ecological and ethical integrity of investments used.
4. Focus on strong and reliable returns.

The purpose of funds invested

1. Maintain a solid financial reserve,
2. Provide and enhance ESA's capacity to have a sound focus on the membership, on services for members and on investment in the professional development of young ecological scientists and indigenous Australians
3. Building of the Society's reputation and exposure as a key hub of ecological expertise and information for government, industry and the community in Australia and the region.

The role of the investment policy, and of the investments themselves, is to serve the needs of the Society within the context of the Strategic Plan and activities sanctioned by the plan.

Investment Policy Statement

Control and direction of the investment policy is coordinated by the Treasurer in association with the Finance Governance Working group (FGWG). The Treasurer will review each annual budget as outlined in the Business Plan. If there are significant deviations from the Business Plan budget, the Treasurer, with guidance from the FGWG, shall amend the Business Plan budget appropriately. The FGWG will meet quarterly to monitor financial health of the Society and make recommendations on funds reinvestment and allocation to the first Council meeting after the end of each financial year.

Portfolio Objectives

Operational Requirements

It has been recognised that in order to meet all operational objectives in the short, medium and long-term requirements of the rolling five year strategic plan, invested funds need to be invested in three distinct ways to match these needs (Figure 1).

Figure 1. Proposed new ESA Financial model

Short-term Cashflow Management (*Day to Day* Investment timeframe of 0-12 months)

Cash flow should meet requirements within a given budgeted financial year taking into account all sources of income and expenditure. Cashflow trends should be well understood, documented and managed as history indicates that income is not received evenly throughout the year.

Short-term cash management is addressed by investing cash and fixed interest assets to match expenditure requirements of the 12 month period being considered. Unless there is a surprise (on the upside or downside) cash expenditure will not exceed the budget unless already authorised by the FGWG.

Decision Framework for short-term funds

1. In May/June of every year, the FGWG will review the cash requirements for the next financial year in light of strategic initiatives outlined in the Strategic Plan. Other circumstances impacting the Society's capacity to contribute to the following year's cashflow that are relevant will also be identified.
2. Major initiatives impacting cashflow such as the employment of staff (full or part-time) or additional revenue expected for the coming year should be considered no later than the end of the March quarter. If additional on-going expenses can not be covered by ordinary operational revenue, capital savings can be used from the New Initiatives Portfolio. Up to 20% of this fund's balance can be used in any given year without Council consideration. Refer to "New Initiatives Portfolio" below.
3. On the matter of resources for employing new staff, or hiring external expertise, the FGWG will consider the following matters:

- a) Whether each appointment has been authorised by the ESA Council. Employment cannot proceed unless authorisation has already been received.
 - b) The potential of the role to generate income for the ESA. If short-term funds are to carry the cost of the new role for the next financial year, the extent of coverage (ie 100% or less) as well as the timeframe for which short term funds are expected to cover the additional cost will be articulated.
 - c) Before employing or hiring an individual, The FGWG will seek and receive agreement from the ESA Council on what outcomes this role is required to achieve based on the cost of supporting the role. Measures will be different for each role and will be based on factors that the FGWG will also pre-determine.
 - d) For new income generating roles, the FGWG will track actual income (either direct or apportioned income) against budget during the first year. If the role was created largely on the basis that it would or should generate additional income and this expectation has not been met, the FGWG will be obliged to put a business case to the Council with its recommendations once actual income falls below budgeted expectations and remedial action is required.
 - e) For existing income generating roles, the incumbent will provide input to the FGWG when it is formulating its cash requirements for the next 12 month period so that the incumbent's realistic revenue expectations can be taken into account.
4. For actual negative cash flow impacts, the FGWG must determine whether it was a "one off" event that is unlikely to re-occur or whether it signals a trend or development that requires further strategic thinking. An example of this is the exchange rate effect of journal income.

Decision Framework to ensure sufficient cash for the following year

1. After analysing the expected income and expenses for the following year, the FWG are authorised to move funds to or from the short term cash pool in the following manner:
 - a) If there is likely to be a deficit over the next 12 months, funds are transferred from the "Medium Term" funding pool.
 - b) If there is clearly going to be a cash surplus, with a buffer greater than 10%, of funds over budget, the surplus will be transferred from the "Short-Term Fund" into the "Medium-Term Fund".

Medium -Term Funding Pool (*Strategic Plan* Timeframe of 2-5 years)

The "Medium - Term" Pool is designed to manage funds within an ordinary five year business planning cycle. The emphasis is on income (70%) whilst a smaller component will focus on capital growth (30%).

Operational requirements impacting on this pool will be those expenditure items that are already included in the 5 year strategic plan. This pool is not designed as an available pool for "when things don't work out". The core reason for this pool's existence is to support the medium term goals (up to 5 years) of the society and not for the payment of short term cash deficits.

One of the strengths of the ESA has come from its discipline in planning well ahead of when funds may be required and is supported by five year rolling strategic plans. All funds belong to the

Society and can be used for the benefit of members providing the expenditure is consistent with the mandate of the executive.

Some examples of this type of planned expenditure are:

- a) The full or part funding of first year employment costs.
- b) One off capital expenditure outlays such as website development (but not on-going maintenance)

A Prescribed Private Fund (The Jill Landsberg Trust Fund) funds student scholarships. Although funds can not be combined with other general funds and there are restrictions on how the money is used, the investment strategy is consistent with that of the medium-term fund.

Safety Account (*Strategic Plan* Timeframe of 2-6+ years)

A Safety Account that has funds to the amount equivalent to 12 months expenses (based on the previous year's audited accounts) should be kept in a term deposit in case of financial difficulty. Financial difficulty is defined as not able to pay creditors/ staff salaries/ expenses from day-to-day accounts or Term Deposits. If this fund is accessed, then it should be remunerated to the amount equivalent of 12 months expenses (based on the previous year's audited accounts) in the following sequence:

- other ESA term deposits;
- ESA long-term shares;
- ESA new initiatives term deposits;
- ESA new initiative shares.

At this point, once all medium- and long-term accounts have been exhausted, the Safety Account funds will be transferred into the ESA Day to Day Account as required.

In any event that the Safety Account Fund is accessed, a revised budget will be required for presentation at the next Council/ Executive meeting to identify solutions to the income stream loss and immediate remediation. Actions taken will be presented by the Treasurer at the following AGM.

Long - Term Sustainability Pool (*Long-Term* Timeframe of 6+ years)

The "Long - Term" Pool is designed to manage funds for a time frame longer than the 5 Year business planning cycle and looks at investing money for at least six years. The emphasis is on growth (70%) whilst a smaller component will focus on income (30%).

Operational requirements impact on this pool only when the Medium -Term Funding Pool requires an injection of capital required to contribute towards the meeting of longer term business planning objectives once they are included in the strategic plan.

As the name suggests, the main purpose of the "sustainability" fund is to invest capital in perpetuity for the future generations.

Explicit Stakeholder Requirements

Key stakeholders are:

- ESA Members
- ESA Council
- ESA Executive
- ESA Finance Governance Working Group
- Employees
- Wiley Blackwell Publishing

Risk Profile of the ESA Council and FGWG

The risk and return requirements of the ESA Council for each pool of funds (short, medium and long-term) will be different.

As the stewards ultimately responsible for the success of the investment portfolio, the ESA Council will have a strong understanding of the maximum level of risk that is acceptable to the key stakeholders of the organisation.

It is critical that risk is considered first. The return objective should then be considered in light of the level of risk that is acceptable to the Council.

Short-term Cashflow Management (Investment timeframe of 0-12 months)

This portfolio will consist of the ESA's cash and working accounts for 12 months. Some other term deposits less than 12 months may also be included here. The account(s) making up this short term fund category will also receive all revenue into ESA. This fund will be fully managed by the FGWG.

Medium - Term Funding Pool (Timeframe of 2-5 years) -65/35 conservative

The key objective of this fund is to generate income with some capital growth. The risk profile employed will be that of a conservative profile. 65% of all assets will be defensive in nature while 35% of the assets will be invested in growth assets.

Investment research suggests that the overall expected return of this fund over a rolling 3 year period should be approximately 7.1%. Investment research suggests that the income/growth split is expected to be 5.1% for income and 1.9% growth. The likelihood of a negative return for a portfolio with this asset mix is 2 years in 26.

This portfolio will also be fully liquid with some assets requiring quarterly redemption windows. Given that the key objective of this fund is to generate income, it is only expected to grow in excess of inflation by 2.5%. This fund will be partially managed by the FGWG, but invested via a chosen fund manager.

Long -Term Sustainability Pool (Timeframe of 6+ years)

The key objective of this fund is to generate growth with some income. The risk profile employed will be that of a growth profile. 25% of all assets will be defensive in nature while 75% of the assets will be invested in growth assets.

Investment research suggests that the overall expected return of this fund over a rolling 5 to 10 year period should be approximately 8.8%. Investment research suggests that the income/growth

split is expected to be 4.3% for income and 4.5% growth. The likelihood of a negative return for a portfolio with this asset mix is 2 years in 10.

This portfolio will be fully liquid with some assets requiring quarterly redemption windows. Assuming the need for less need for liquidity however the funds growth is expected to exceed inflation by 4%. The expected purpose of this fund is to ideally grow the capital sum in perpetuity. This fund will be invested via a chosen fund manager.

Risk Profile of the Jill Landsberg Trust

As some funds are kept in term deposits the managed funds can be allocated to a medium-term or long-term sustainability pool. If more funds are allocated to this Trust, the FGWG will assess the best methods for investing funds and advise the JLTF Board of options. JLTF Board will then decide on which investment option is appropriate.

Broad Portfolio Construction Requirements

▪ Ethical Investments

It is important for the ESA to invest in ecologically and ethically sustainable portfolios. This is especially true for assets held in the Jill Landsberg Trust.

What ESA means by this is:

Use *Best of Sector Investments* philosophy

We expect our fund manager(s) may invest across all sectors and/or all industries, but seek out those companies with an exemplary environmental, social and governance (ESG) performance compared to their peers. This approach is based on the belief that it is important for all companies in all industries to incorporate sustainable practices and attain a high level of ESG outcomes. In accordance with this philosophy, no sector or activity is necessarily excluded or preferred, but rather the emphasis is placed on identifying the best performing investments or companies in each area in terms of ESG criteria. This approach is quite popular among Australian fund managers, particularly superannuation funds which include responsible investment options to their members.

▪ Transparency - reporting

FGWG

This committee will meet quarterly to assess the standing of all ESA investments.

The Executive Committee

Monthly accounts are shown at executive (bi-monthly) or council meetings (bimonthly – each other month when executive meetings are not held). Executive are part of council.

The Investment Manager

The Investment manager will meet annually with the ESA FGWG to discuss Portfolio performance at the third quarter meeting (ie post financial year statement). Currently ESA receives annual reports. On-line access is also available for assessment of the invested portfolio at any time.

▪ Specific Asset Based Risk Criteria

Any term deposit investments will generally be with Australian Deposit Taking Institutions such as the big four banks.

Delegation of Authority & Responsibility

Executive Committee (as of August 2011) :

Kris French (President)
Carla Catterall (Past-President/President Elect)
Nigel Andrew (Treasurer)
Lyn McCormick (Finance Officer)
Gail Spina (Executive Officer)
Raghu Sathyamurthy (Secretary)

One VP sits on the Executive each year:

Liz Tasker (VP-Public Liaison)
Glenda Wardle (VP-Research)
Ian Williamson (VP-Student Affairs)

Finance Governance Working Group:

Nigel Andrew (Treasurer), Chair
Kris French (President)
Lyn McCormick (Finance Officer)
Gail Spina (Executive Officer)

Delegated person communicating to Fund Manager/s:

Nigel Andrew

Process & Procedures

Below are formal processes that need to be followed to ensure robust delivery of the investment management service.

▪ **Appointing and re-appointing investment managers**

Each year, or when there are major changes in financial arrangements, the FGWG needs to advise the Investment Portfolio managers of the following:

- ESAs clear goals and perspectives of investments (as defined in the current Business Plan)
- ESA fund objectives
- Money made via investments and other means (interest, new initiatives)
- Changes in contact arrangements between ESA and the Funds manager
- Changes in reporting requirements
- Changes in the relationship we want to have with managers

▪ **Trusted advisor status**

- Will be reviewed every five years in line with every Business Plan cycle
- **Investment manager review**
 - Every two years
 - All performance and interactions should be assessed to determine if interactions are adequate and if reporting arrangements need to be changed
- **Investment policy review**
 - Every two years
- **Investment manager reporting and presentations to the Council and/or investment committee**
 - Annually
- **Approval of asset allocation and investment recommendations from the investment manager**
 - Annually
 - Asset objectives to align with objectives of each fund type
 - The Funds Manger are able to do projections of dynamic changes in our spending cycle if required (based on a fee-service)
- **The provision of information by the investment manager requested by the Council or investment committee.**
 - Such requests can be at any stage.
 - Although extensive financial information may require a fee-for-service, and a quote for such work will need to be obtained and accepted by the Financial Governance Committee (and ESA Council Informed) of such payments.