Policy: Investment Distribution

Purpose

The purpose of the Investment Distribution Policy is to articulate the principles that govern distributions made from investible funds entrusted to the University for their beneficiaries.

Overview

The Investment Distribution policy details the key objectives of distributions made from the University's investments. The objectives are:

* To balance the goals of asset preservation and budget stability against intergenerational equity, ensuring that the University's current needs are met without compromising its future monetary needs.
* To ensure the sustainability of endowments to achieve their mission over the full extent of the desired time horizon.
* To achieve an impactful (maintaining utility) distribution for beneficiaries and facilitate a robust budgeting process.
* To maintain the real value of contributions received and to grow the overall size, allowing for increased earnings available to beneficiaries.

The sustainability of the gifts and contributions entrusted to the University is centric to (how the distributions are made from investible funds) the distribution of the funds while simultaneously, seeking to maximise the distributions for the spending of beneficiaries.

This policy should be read and used in conjunction with the following policies:

* Finance Committee Charter and related investment policies
* Risk Management Framework
* Governance Framework

Scope

This policy applies to all funds held in the University's investment portfolio.

Definitions

ANU Act means the *Australian National University Act 1991*.

CPI means Consumer Price Index.

LTIP means the Long Term Investment Pool.

Relevant law means the *Australian National University Act 1991*and the *Corporations Act 2001* (and associated regulations).

PGPA Act means the *Public Governance, Performance & Accountability Act 2013*.

SAA means Strategic Asset Allocation.

Policy statement

Background

1. The Australian National University is a body corporate established by the *Australian National University Act 1991*. The University is considered a "corporate Commonwealth entity" under the *Public Governance, Performance & Accountability Act 2013*. The ANU Act grants to the University a series of exemptions from sections of the PGPA Act dealing with limitations on investment powers and compliance with the policies of the Australian Government.
2. Section 9 of the ANU Act confers upon the ANU Council the power over the University, granting it entire control and management of the University. Under section 17 of the ANU Act and through the *Australian National University Governance Statute 2020*, the ANU Council delegates to the Vice-Chancellor the power to "control and manage the affairs and concerns of the University."
3. The ANU Council recognises its fiduciary duty to administer the investment portfolio prudently for the benefit of the University and the unit holders. The ANU Council is supported in this regard through its Finance Committee.
4. The University's Long Term Investment Pool (LTIP) has a long-term investment horizon reflecting its perpetuity. The distribution parameters determine the distribution to unit holders of LTIP.
5. Unit prices on the LTIP and returns accruing to unit holders are determined to closely reflect the investment returns recorded on the underlying investments. Accordingly, unit holders bear the investment risk in that the investment returns recorded are reflected directly in changes to the monthly unit price of the LTIP.
6. LTIP unit pricing calculations are governed by the 'Unit Pricing Protocol', which is a Finance & Business Services (F&BS) protocol published on the F&BS webpage.

Setting the distribution strategy

7. The ANU Council determines an appropriate investment strategy for the University as a whole and for the LTIP. Setting the investment strategy is a continual process that aims, first and foremost, to ensure alignment between agreed investment objectives and the structure of the investment portfolio.
8. The University is assisted in this endeavour through a triannual review of the Strategic Asset Allocation (SAA) of the LTIP. The SAA anchors the LTIP investment strategy. The SAA decisions dominate the investment outcome. In determining the SAA for the LTIP, modelling is undertaken by external asset consultants to balance risk and return to maximise the probability of achieving the stated objectives.
9. The triannual review determines if the SAA is capable of supporting the existing distribution rate, while being consistent with the ANU Council's risk appetite expressed as the target investment return (CPI + 3.5% over a 7-year period) and the target risk (one negative year in five years).

In setting the distribution strategy, the ANU Council recognises that a distribution model which consistently distributes less than the real return on the fund will, over time, accumulate significant real market value. The build-up of capital value of the portfolio will significantly increase the benefit to future generations at a cost to the current generation.

10. To minimise the (generational) impact, the annual distribution rate is based on a rolling three-year asset balance of the LTIP at 31 July of each given year.

11. In setting the distribution strategy, the ANU Council recognises that the objectives of unit-holders are intentions and that they may not be achieved in any particular time-frame.

Consideration of investment covenants

12. In taking decisions on the distribution strategy, the ANU Council will have regard to the overall circumstances of the portfolio as well as the particular circumstances pertaining to the University, and will comply with all applicable legislative requirements.

13. The University reserves the ultimate discretion in how it approaches the structuring of distributions across its portfolio. Noting the above, the potential future states may involve a transition from deemed distributions to actual distributions. The LTIP will be managed with a view to ensure that it will have sufficient liquidity to meet the distribution cash flow requirements.

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