Australian National University

Policy: Investments rebalancing

Purpose

The purpose of the Investments Rebalancing policy is to articulate the importance of rebalancing assets to maintain the risk-return characteristics consistent with the Strategic Asset Allocation and the Dynamic Asset Allocation. The Australian National University's investment portfolio is diversified across multiple asset sectors to achieve a set of investment objectives over a determined period of time and within defined risk parameters. This policy should be read in conjunction with the Investment policy.

Overview

The Investments Rebalancing policy details the key objectives of the rebalancing framework:

- Maintain a high level of control over portfolio outcomes by regularly rebalancing the portfolio to the target asset allocation weights to achieve the stated investment objectives.
- Minimise the risk of unintended departures from the target asset allocation in volatile markets that could result in unrewarded investment risks and unintended tracking error, relative to benchmark performance.
- Manage the Fund's asset allocation within defined range to achieve higher risk adjusted returns.
- Monitor portfolio liquidity and exposures to asset classes that have been impacted by significant market movements resulting in deviations from the target asset allocation.
- Consider transactions costs in portfolio rebalancing decisions to preserve the integrity of the SAA and DAA.

Scope

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

Definitions

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

DAA means Dynamic Asset Allocation

Derivatives are financial instruments whose value and marketability are derived from the value of an underlying asset, liability or index which represents either the direct ownership of an asset or the direct obligation of an issue. Derivatives include financial instruments that trade on an organised exchange or "over-the-counter" (OTC) and which include, but are not limited to, futures, swaps, forwards, warrants and options.

FUM means Funds Under Management.

Fund means LTIP plus GCF.

GCF means the General Cash Fund.

LTIP means the Long Term Investment Pool.

MER means Management Expense Ratio which is a ratio, expressed as a percentage per annum, used to capture expenses incurred by the underlying investment managers and all associated investment operating costs.

Relevant law means the *Australian National University Act 1991*, the *Corporations Act 2001* (and associated regulations), or APRA's *Prudential Standard SPS 530 Investment Governance* *and* *Prudential Practice Guide SPG 530 Investment Governance*.

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

SAA means strategic asset allocation.

Prudential Standard SPS 530 Investment Governance

Policy statement

Background

1. 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 *ANU Governance Statute 2020*, the ANU Council delegates to the Vice-Chancellor the power to "control and manage the affairs and concerns of the University."

2. 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.

Setting the rebalancing strategy

3. The ANU Council determines an appropriate investment strategy for the University as a whole and for the Long Term Investment Pool and the General Cash Fund. 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. Rebalancing is an important mechanism to implement the investment strategy effectively and efficiently, achieve the targeted investment objectives, risk management and manage the Fund's liquidity position. In doing so, the rebalancing strategy adopted takes into account the ANU Council's risk appetite against expected returns net of rebalancing cost, within the asset allocation rages of the Strategic Asset Allocation.

4. In setting the strategy, the ANU Council recognises that the objectives are intentions and that they may not be achieved in any particular time frame. The rebalancing strategy is critical to assist the Finance Committee to vary the asset allocation for the Fund given market conditions. It is important to note that there is no optimal frequency or threshold when selecting a rebalancing strategy.

5. The investment selection and asset manager selection processes are integral to the rebalancing strategy. Rebalancing decisions made by the Finance Committee could require:

- additional allocation to the Fund's existing investment managers
- reallocation between existing investment managers in any one asset sector
- appointment and termination of investment managers

6. The Rebalancing Decision Making Process Map to summarise the decision making and implementation processes has been documented in Appendix A.

Implementation of the rebalancing strategy

7. A transition manager may be appointed where the ANU Council deems it to be necessary for the efficient transfer of assets to manage the transition process in a risk controlled and cost efficient method. Transitions may require large quantities of securities to be bought and sold a transition manager is appointed to minimise explicit (commissions and brokerage) and implicit costs (bid-offer spreads and market impact). See Appendix B.

8. The Investment Office monitors the actual asset allocation against the SAA on a monthly basis to identify and monitor asset sectors that are within 1% of the SAA upper or lower ranges. This ensures that significant divergence from the SAA ranges are identified and resolved in a timely manner.

9. Rebalancing bands (or drift) of +/- 5% around each asset sector are set to reduce the frequency of rebalancing and transaction costs. These bands provide the flexibility to avoid frequent rebalancing, provided an asset sector has not deviated by more than 5% from its SAA or DAA weight. The drift range is not a hard limit but is monitored and asset allocation outside the drift range does not constitute a breach if the asset allocation is within the SAA ranges set by the ANU Council.

10. If the actual asset allocation for any of the asset sectors excluding cash falls outside a drift range of +/-5% on a monthly basis, the Investment Office rebalances the asset sectors to the target range. Asset sectors could be rebalanced well before they have hit their 5% range limit. At other times, particularly in volatile markets rebalancing should be avoided unless an asset sectors are significantly outside the 5% range limit. The Finance Committee is notified when the asset allocation goes outside the 5% range.

11. The execution of the rebalancing decisions may involve redeeming funds in sectors that are overweight to target allocation and investing the proceeds in asset sectors that are underweight relative to the target allocation. This is achieved by redeeming funds from external managers in sectors that are overweight and investing the cash proceeds with external managers in sectors that are underweight or deploying cash.

Dynamic Asset Allocation

12. The ANU Council may from time to time adopt DAA tilts within the Fund. The criteria to be considered when implementing a DAA tilt are stated in the Investment policy.

Rebalancing Factors

Transaction costs

13. Rebalancing strategy that involves a higher level of trading activities results in higher direct (brokerage) and indirect (market impact) costs. Market impact of the trading activities is dependent on market liquidity and the size of the trades to be implemented and could result in trading at disadvantageous prices during periods of extreme market volatility. The Investment Office is expected to implement a rebalancing strategy without incurring significant costs to the investment option under normal operating circumstances and a range of stressed scenarios.

Operational Risk

14. The Fund minimises operational risk by not frequently rebalancing small imbalances that typically do not move the portfolio’s risk-return profile significantly away from optimality. Portfolio drift within the ranges approved by the Finance Committee that does not have a significant impact on portfolio efficiency are tolerated.

Illiquid investments

15. The illiquid nature of asset sectors such as private equity, infrastructure and real estate restricts the ability to maintain the risk return profile of the target asset allocation. This means that the risk-return profile increases overall portfolio risk if illiquid assets outperform liquid assets for extended periods of time. The policy is to proportionately share the underweight or overweight to such illiquid assets across all LTIP unit holders.

Delegations relevant to this policy

- **346**: Buy, sell and subscribe for Cth Bonds and Treasury: Up to $250,000 for Student Managed Fund.
- **348**: Place/withdraw investments in negotiable certificates of deposit and interest-bearing bank deposits: Up to $500,000 for Student Managed Fund.
- **350**: Buy and sell accepted bank bills: Up to $500,000 for Student Managed Fund.
- **351**: Buy and sell listed fixed interest securities: Up to $250,000 for Student Managed Fund.
- **356**: Buy, sell and subscribe for equity securities and options: Up to $500,000 for Student Managed Fund.
- **357**: Buy, sell and subscribe units in property trusts listed on the Australian Stock Exchange: Up to $250,000 for Student Managed Fund.
- **448**: Invest in Cash Management Trusts: Up to $750,000 for the Student Managed Fund.
- **449**: Execute investment transactions (subject to investment policy & procedures).
- **450**: Execute a term deposit (subject to investment policy & procedures).
- **362**: Buy and sell investment property, subject to Finance Committee endorsement.
- **451**: Execute management contracts, lease and other agreements in relation to the management of investment properties (subject ot investment policy & procedures).
- **452**: Authorise expenditure in relation to maintenance and capital improvements of investment properties within budget.
- **453**: Appoint investment consultants.
- **454**: Appoint fund managers, subject to endorsement by Finance Committee.
- **455**: Appoint investment custodian.

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