

Governance-Operations Policy Statement

RESERVES AND INVESTMENT POLICY

1. Purpose

1.1. Objective

The Reserves and Investments Policy provides formal guidance on how the AWA Board should manage financial reserves in order to maintain adequate liquid assets for business fluctuations and to deliver long term capital growth.

1.2. Scope

The *Corporations Act 2001* (Cth) and the AWA constitution establish the Board of Directors as the managing authority for the Australian Water Association Ltd, a company Limited by Guarantee.

The managing authority lies with the Board as an entity and not any individual Director or Directors.

Unless specifically delegated through this policy or as recorded in Board minutes, the Board shall retain ultimate approval and authorisation responsibility for the entire entity.

Policy Statements

2.1 Diversified Portfolio

The investment strategy to meet AWA's specific objective is a "**Balanced**" portfolio designed to provide moderate risk and return over long term (5 years). The design of the portfolio is done by the appointed Investment Advisor, using the preferred asset allocations approved by the Board.

The risk and volatility of growth investments will be maintained at a level that will strive to achieve consistent returns of not less than 5% above CPI over at least a 5 year period.

A "Balanced" portfolio recognises that AWA is cautious of taking high risks. AWA is comfortable in taking some risk to achieve long-term capital growth with expectation of swings in year to year returns. It is expected that negative returns may occasionally occur in the pursuit of long term capital growth.

AWA will in effect have two portfolios:

1. Liquid component which equals 25% of the annual revenue, which is not required immediately for operational purposes. It is accessible for capital requirements, as well as to smooth fluctuations in revenue and expenditure. It is held in defensive, liquid assets.
2. Surplus funds which are not needed for 5 years, to be focused on growth. Surplus funds can be described as 'retained earnings which are not required to fund normal annual business operations, nor required to fund capital expenditure'. The funds will be invested for moderate risk with steady returns and low volatility. They will also have reasonable liquidity.

2.2 Portfolio Asset Allocation

The strategy is set around two distinct portfolios:

- The liquid funds that are available for operational and capital purposes will be invested in defensive assets, such as fixed interest, and cash (including bank bills and term deposits). These deposits will be made by AWA according to cashflow forecasts and current market offerings, and are routinely monitored. This will provide stability and consistent income to returns from year to year and be accessible at short notice.
- The 'surplus' funds will be used for long term investments comprised of Australian equity and global listed infrastructure.

The Board has resolved that both equity and infrastructure investments are to be held by way of *managed funds*, managed by an external advisor

The strategy has set aside sufficient funds for operating requirements and segregating it from medium and long term investments. If operational requirements exceed the amount set aside in defensive assets, the growth investments could be accessed with Board approval.

The Liquid portfolio will be comprised of low volatility investments diversified across cash, term deposits, floating & fixed rate securities and other short term investments that suit the cash flow needs of AWA.

The Surplus (growth) portfolio asset class range would generally be as follows:

ASSET CLASS	Benchmark allocation	Ranges
Cash	2%	0-10%
Fixed income	18%	0-20%
Credit*	15%	0-20%
Total Defensive	35%	
Real Estate	0%	0-20%
Global Listed Infrastructure	20%	0-25%
Australian Shares	45%	40-70%
International Shares	0%	0-20%
Total Growth	65%	

*Credit includes all floating rate non-gov, non-sovereign interest bearing securities

Asset Class	Benchmark Allocation	Ranges
Cash	2.00%	0 - 10%
Fixed Income	18.00%	15 - 25%
Credit	15.00%	10 - 20%
TOTAL DEFENSIVE	35.00%	
Real Estate	0.00%	0 - 5%
Global Listed Infrastructure	20.00%	10 - 30%
Australian Shares	45.00%	35 - 60%
International Shares	0.00%	0 - 10%
TOTAL GROWTH	65.00%	

From time to time, for tactical and strategic reasons as well as during periods of portfolio re-alignment, it may be necessary to be outside the minimum and maximum levels for short periods. However its appropriateness would be reviewed to ensure AWA's objectives could still be met over the long term.

In addition, the allocation can be in a single asset class during the implementation of this Policy and at other at times due to market, economic or AWA circumstances.

2.3 Portfolio Diversification

AWA wishes to implement as much diversification as it is able, given its asset base. It elects to diversify across Asset classes in the proportions shown at 2.2.

In considering the degree of diversification appropriate for the two aspects of the total portfolio ('Liquid' and 'Surplus'), AWA has taken into account:

- Operational cash flow requirements;
- existing investment and;
- access to expert investment advice.

The total Investment portfolio aims to provide diversification, stability and long term returns consistent with AWA's objectives, as outlined in this Policy.

2.4 Cash Flow and Liabilities

Adequate funds will be held in defensive asset class portfolio to enable AWA to meet its short term obligations.

The investment strategy is structured in such a manner that AWA has sufficient liquidity to manage its operational requirements

2.5 Performance Monitoring

To monitor the success of the investment policy in achieving the investment objectives, AWA will compare investment returns against:

- (a) Investment objectives on an annual basis;
- (b) Cash rates and other appropriate benchmark(s) having regard to the composition of portfolio assets.

2.6 Benchmarks for Monitoring Investments

AWA will measure its success criteria against certain benchmarks and indices. The nominated benchmarks for performance will be as follows:

- (a) Australian shares - all ordinaries accumulation index
- (b) Liquid assets - average returns from cash management trusts
- (c) Australian fixed interest - returns from Australian Government bonds

AWA recognises that the requirement to use managed funds for domestic assets compared to direct securities, could also adversely impact on returns.

3. Asset Management Strategy

In order to give effect to the investment objectives, AWA will have regard to the following principles in the implementation of its strategy and acquisition of investments:

- Purchase of investments in equities and infrastructure shall be by way of managed funds where the fund or the fund manager is rated at least "investment" grade by a recognised rating firm.
- Sale of managed funds shall be triggered when the rating for the managed fund or the fund manager falls below "Hold" or "3 stars" or its equivalent where a different scale is used by a rating agency.

- Prior to investing in cash management trusts, debentures, floating rate notes, income securities and fixed interest investments, AWA shall consider the period of investment, the risk, the accessibility of funds, the return and forecasted interest rate movements.
- Acquisitions and disposals will be made in instalments over 6 – 12 month periods to mitigate entry point risk.

4. Investment Risk and Return

It has been noted and accepted by AWA that growth assets such as Australian Shares, and Property present greater potential for return, risk and volatility than cash and fixed interest investments.

5. Investment Management and Review

The investment policy is to be reviewed at least annually to ensure that it remains appropriate to meet the objectives and circumstances of AWA.

6. Context

3.1 Definitions

Secretary	The AWA Company Secretary
Chair	The person in charge of a meeting of the Board or other AWA Committee meeting
Committee	An AWA Board sub-committee and other AWA Committees identified within the AWA Constitution and By-laws, or established under Board approved Terms of Reference
Member(s)	Member or members of any AWA Committees defined above

3.2 Responsibilities

Position	Responsibility
Manager, Gov & Admin	To ensure the Policy is available for members to access on the AWA web site.
Financial Controller	To ensure Policy is reviewed and updated by the Committee according to the review cycle.

3.3 References

Legislation	Corporations Act 2001 (Cth)
AWA Policies and Procedures	AWA Constitution and By-laws AWA Accounting Procedures
Other	Board Minutes

7. Document Control

Policy Title	Financial Reserves and Investment Policy				
Current Review Date	May 2017	First Issued Date	Nov 2007	Next review Date	May 2019
Master File name:	FINANCIAL RESERVES AND INVESTMENT POLICY				
Policy Owner:	AWA Financial Controller				
Distribution:	AWA Intranet	No	AWA Board & Chief Executive		
	AWA Web site	Yes			
Version issued May 2017					