

## 1. Melbourne Community Foundation Trustee

The Trustee of the Melbourne Community Foundation (MCF) is Community Foundation Network Ltd (the Trustee), a not-for-profit company limited by guarantee. The Melbourne Community Foundation comprises five Trust Funds:

- Melbourne Community Foundation (MCF) Fund (Main)
- Melbourne Community Foundation Extension Fund (Extension)
- Melbourne Community Foundation Scholarship Fund (Scholarship)
- National Community Foundation (NCF) Main Fund and
- National Community Foundation Extension Fund.

### 1.1 MCF Board

The Trustee has an honorary Board, the members of which bring expertise in a range of fields including business and financial management, law and community development. Board members volunteer their time to oversee the functions of MCF. Each director is also a member of at least one of the MCF Board sub-committees.

The Board's operation and performance is externally reviewed every two years. In addition, the Board holds an annual strategic retreat to discuss future direction and issues affecting the growth of the foundation.

The Board is responsible for appointing MCF's investment manager, based on a recommendation from the Finance and Investment Committee.

### 1.2 Conflict of Interest

On appointment, directors are required to advise the Trustee of all other directorships, potential and present related party transactions and affiliations with professional and community associations.

On a continuous disclosure basis, all directors are required to advise the Trustee of any changes. All Board members complete an annual, formal disclosure statement which is formally noted and recorded by the Board.

Directors are required to declare any interest which arises and which presents a potential conflict of interest at the earliest opportunity, either to the Board or to the Chair. Subsequent involvement in the matter concerned is at the discretion of the Chair.

### 1.3 MCF Finance and Investment Committee

The Trustee sets the investment policy and procedures which apply to MCF and keeps these under constant review. To this end, the Finance and Investment Committee, a sub-committee of the Board, is responsible for:

- advising the Board on the financial and business affairs of MCF
- advising the Board regarding the design and execution of an asset allocation strategy
- advising the Board on the investment policy, process and performance of the Funds
- considering any strategic directions in the area of finance and investment and identifying their financial, legal, physical and human resource implications.

MCF's Finance and Investment Committee comprises members with years of experience and skills in investment, banking, accounting and finance. In addition to MCF Board members, the committee includes independent members chosen for their strong finance and investment expertise and experience.

The Finance and Investment Committee has clear delegations from the Board and is responsible for overseeing the financial and investment performance of MCF and for ensuring the investment guidelines and objectives are met.

The Trustee has appointed an external investment manager under a mandate and service agreement, which reflects MCF's investment objectives and guidelines. The mandate sets out the delegations to act and the limitations imposed on the investment manager.

The Finance and Investment Committee meets monthly to review the MCF management accounts and Fund performance. Once a quarter, the Finance and Investment Committee meets with MCF's investment managers for a more detailed review of investment performance and discussion of future direction and strategy.

Formal reviews of key investment strategy components on an annual basis include:

- full portfolio review and asset allocation
- review of investment philosophy, objectives and ethical filter
- review of investment execution including the mandate, delegations and benchmarks
- review of the Finance and Investment Committee's operating and reporting process.

The Finance and Investment Committee reports to the Board at every meeting.

## **2. MCF Investment Management**

### **2.1 Investment Approach**

All decisions relating to MCF's investment of the Trust Fund are the legal responsibility of the Trustee, through the MCF Board. Investment matters are dealt with by the Board's Finance and Investment Committee, which is responsible for the design and execution of the asset allocation strategy and investment activities.

2.1.1 MCF adopts two investment approaches:

#### **(i) Long term growth investment**

The long term growth investment approach is the core MCF investment approach for building endowment and generating annual income for distribution. Key features of the long term growth investment approach include:

- Strategic asset allocation: 80% growth assets and 20% cash or fixed income securities;
- Performance objective: to generate CPI plus 4% over a rolling 7 year period;
- Targeted return net of investment fees and charges: approximately 9% p.a. with a probability of loss estimated to be one year in every 5-6 years.

Portfolio construction details for this investment approach are set out in section 2.4.1 below.

(ii) Medium term income investment

The medium-term income investment approach is designed primarily for 2 situations:

- sub-funds which the Trustee holds with the intention of granting capital as well as income within a shorter period of time, say 3-5 years;
- flow through giving programs - primarily workplace-giving programs, where employee contributions are distributed and corporate contributions are used to build the endowment.

Key features of the medium term income investment approach include:

- Strategic asset allocation: predominantly cash and fixed income securities and targeted to have 15% in growth (Australian equities and/or property).
- Performance objective and targeted return net of investment fees and charges: to exceed the UBS Bank Bill Index. The probability of loss is estimated to be one year in every 11 years.

Portfolio construction details for this investment approach are set out in section 2.4.2 below.

2.1.2 Within the context of its legal obligations and in determining the appropriate investment approach for each sub-fund, the Trustee will take into consideration:

- (i) Sub-Funds: the intended longevity and granting program of a sub-fund. Upon establishment of a sub-fund, a donor may request an investment approach appropriate to these intentions.

For sub-funds containing over \$100,000:

- a. Division of funds: the donor may request a division of the sub-fund between the 2 investment approaches.
- b. Change to investment strategy: where the intentions of the sub-fund change, the donor may make a request to change the investment strategy of the sub-fund.

A request by a donor for a change to the investment approach adopted on behalf of a sub-fund must be made at least 90 days prior to 30 June in order to be considered by the Trustee and, if appropriate, given effect by the investment manager for the following financial year.

- (ii) The Trust Fund: the life and granting program of the Trust Fund are critical determinants in the design, construction and execution of the investment strategy of the Trust Fund. For example, it is a requirement that 80% of income, across the combined growth and income portfolios, be distributed over a rolling three year period to maintain the tax deductible status of The Trust Fund.
- (iii) Investment advice: recommendations from the Trust Fund's investment manager as to asset allocation strategies and investment activities appropriate to the current investment landscape.

Note: MCF cannot offer financial advice to donors.

## 2.2 Definitions

- “The Trust Fund” is defined as the total endowment fund operated by MCF, comprising pooled donations through sub-funds but operated and invested as one fund in order to generate annual income for distribution.
- “Income” is defined as including receipts or accumulations of dividends, interest, trust distributions, rents and similar cashflows.
- “Capital” is defined as including receipts or accumulations of movements in asset prices, redemptions of asset values and realised capital gains (or losses).

*Note: The Trust Deed of the Melbourne Community Foundation does not define income or capital.*

## 2.3 Investment Manager

Following a tender and selection process in early 2009, Beulah Capital was appointed as MCF’s investment manager for three years, effective 1 July 2009.

[www.beulahcapital.com](http://www.beulahcapital.com)

Beulah Capital is a boutique, executive owned, Australian based investment services business. Founded in 2008, Beulah Capital undertakes its own in-house research and utilises quality research and analysis from a variety of providers both in Australia and offshore.

MCF selected Beulah as it met all MCF’s required specifications including:

- demonstrating a strong track record in investment performance;
- demonstrating a robust, transparent asset allocation and portfolio construction methodology and process;
- demonstrating significant expertise in philanthropic funds management;
- its investment philosophy was a good fit with MCF’s objectives, being focused on absolute returns and an emphasis on long term capital growth; and
- cost effectiveness and provision of additional support.

## 2.4 Investment Portfolio

The Board of MCF sets and regularly reviews the asset mix for funds under investment.

All funds are placed under management with MCF’s investment manager according to the mandate and service agreement. All investments are held in the name of the Trustee. There is no custodian.

The asset mix may include equity, fixed interest, listed hybrid securities, listed and unlisted trusts, unlisted private equity, convertible bonds, preference shares, commodities, foreign exchange, derivatives and cash.

The asset allocation tables below are based on professional advice from MCF’s investment manager and are designed to provide a benchmark or strategic asset allocation and limits to the allowable tactical investment ranges for each portfolio. The mix will vary over time in order to benefit from opportunities and protect against downside risks.

## 2.4.1 Long Term Growth

<b>Long Term Growth Portfolio – 80% Allocated to Growth Assets (Maximum Exposure to Growth Assets 85%)</b>		
<b>Asset Class</b>	<b>Tactical Investment Ranges</b>	<b>Strategic Asset Allocation</b>
Cash	0% - 30%	5%
Fixed Interest	5% - 40%	15%
Australian Equities	30% - 50%	40%
International Shares	0% - 27%	17%
Alternative Investments - Private Equity	0% - 5%	2.5%
- Global Macro	0% - 5%	2.5%
- Commodities	0% - 7%	5%
- Infrastructure	0% - 6%	3%
Property	0% - 20%	10%
<b>Total</b>		<b>100%</b>

## 2.4.2 Medium Term Income

<b>Medium Term Income Portfolio – 85% Allocated to Income Assets (Maximum Exposure to Growth Assets 20%)</b>		
<b>Asset Class</b>	<b>Tactical Investment Ranges</b>	<b>Strategic Asset Allocation</b>
Cash	5% - 30%	10%
Bank Bills	0% - 35%	25%
Term Deposits	0% - 50%	40%
Corporate Bonds	0% - 15%	5%
Hybrids	0% - 20%	5%
Australian Equities	0% - 20%	10%
International Shares	0%	0%
Alternative Investments	0%	0%
Property	0% - 15%	5%
<b>Total</b>		<b>100%</b>

Liquidity may be required for certain sub-funds but a minimum notice period of at least six months is required for a withdrawal of capital in excess of 10% of the value of the Trust Fund at any one time.

Undistributed income is transferred to capital at least once per year.

## 2.4.3 Portfolio Construction Guidelines

- Australian Equities
  - a. Performance benchmark is the S&P/ ASX 200 Index.
  - b. Expected number of securities holdings: 20 to 30.
  - c. Single Stock Exposure Limits:
    - Companies less than \$100m – No holdings
    - Companies \$100m - \$500m – Maximum holding 3%
    - Companies \$500m - \$2billion – Maximum holding 5%
    - Companies \$2billion and above – Maximum holding 15%
  - d. Sector or sub-industry limits:
    - Maximum weighting of 30% to any sub-industry group

- e. Specific portfolio limits requiring prior approval from the MCF Finance and Investment Committee:
    - o Placements that exceed these limits
    - o Directly held unlisted securities or pre-listings
  - f. Short Selling of equities is not permitted.
- Derivatives
 

The use of derivatives directly held by The Fund is limited to:

    - o Stock covered written calls to generate additional income
    - o Cash covered written puts to generate income
    - o Long puts to protect equity downside risk
    - o Derivatives used within external funds are permitted
    - o Structured products that contain derivatives are permitted (subject to prior approval from the MCF Finance and Investment Committee)
    - o Foreign exchange and interest rate futures are permitted (subject to prior approval from the MCF Finance and Investment Committee)
    - o SPI collar protection is permitted
    - o The use of derivatives for gearing purposes is not permitted
  - Fixed Interest
 

The fixed income portfolio will be managed to ensure risk is controlled by the following means:

    - o Diversification between government and semi-government securities
    - o Global fixed income
    - o Inflation linked bonds
    - o Corporate paper
    - o Monitoring credit rating exposure
    - o Managing duration risk
    - o Managing exposure risk across issuers, industries and sectors
    - o The hybrid portfolio shall not be listed in any securities with a credit rating lower than BBB
    - o No unrated paper is to be included in the portfolio (unless prior approval from the MCF Finance and Investment Committee is received)

## 2.5 Environmental, Social and Governance (ESG) Investment Guidelines

Under the mandate, MCF's investment manager will be responsible for adhering to MCF's ESG investment screening process:

- The Trustee authorises the investment manager to favour investment in companies that have sound environmental, social and governance policies and have demonstrated corporate social responsibility practice.
- Consideration in relation to corporate social responsibility will include environmental sustainability, employment practices, procurement policies, corporate governance and ethics.
- Specific exclusions include companies whose dominant purpose or product relates to tobacco, gambling or weapons and companies that persistently infringe indigenous or human rights.

## 2.6 Risk

All investors face risks, but because of its long-term time horizons and tax exempt status MCF's investment profile is different from superannuation or personal monies.

The Trustee needs to take into account inflation risk (the possibility of losing real value of income over time) and income volatility (due to grantmaking requirements and programs).

MCF uses diversification of investments to reduce the volatility of investment returns and reduce the risk of poor returns: diversification across markets and regions as well as investing in a range of asset classes. However, due to the tax exempt status of philanthropic trust funds, the benefits of diversification need to be balanced against the reduction in income from Australian shares paying franked dividends.

MCF aims to manage investment risk in a number of ways:

- Diversification
  - Investment across asset classes
  - Investment across a number of industries and sectors
  - Monitoring exposure to various countries and currencies
  - Regular review of asset allocation strategy depending on economic conditions
- Continuous portfolio review
- Guidelines to limit the maximum exposures to any single investment, industry sub groups and company market capitalizations
- Use of a range of fixed income investments.

MCF's investment manager utilises a proprietary risk modeling methodology to assess the optimal weighting to each asset class.

### **3 Investment Reporting**

For each asset portfolio the Investment Manager provides the Finance and Investment Committee quarterly reporting including:

- An asset allocation report
- Australian equities sector allocation
- Portfolio valuation
- Transaction history
- Cash account history
- Income for the period
- Fund performance versus benchmark
- Performance attribution (where material)
- Sub-Fund donor statements (six monthly)
- Supporting commentary.

### **4 Donor Reporting**

MCF provides a donor statement every six months. These statements detail the investment and transaction activity attributed to each sub-fund and the investment performance attributed to the sub-fund.

The donor statements also detail the attributed amount of income available for distribution.

In its annual reporting, MCF will report on the overall Trust Fund performance.

## **5 Investment Management Fees**

MCF pays an annual Investment Management Fee of 0.5% of capital on funds up to \$30 million and 0.3% of capital on funds above \$30 million.

Brokers' commission / funds' fees are charged as incurred. The investment manager has an agreed brokerage rate ranging from 0.1% to 0.3%, and does not retain any part of the brokerage fees.

All investment returns are expressed net of all investment fees.

In addition to the Investment Management Fees, MCF charges an annual Administration Fee of 1.35% of capital. This covers MCF's full range of donor services including all grantmaking research, support and activities, as well as all MCF's sub-fund administration. A key part of MCF's purpose is to encourage and support accessible philanthropy. The flat fee structure allows small and large funds to operate flexibly and gives the donor freedom to change and adapt their approach over time.

## **6 Auditor**

KPMG was appointed MCF's auditor in 2003 and has undertaken the annual Audit since then.

[www.kmpg.com.au](http://www.kmpg.com.au)

## **7 Accountants**

Marin Accountants was appointed in July 2009 as MCF accountants, with responsibility for the Trust Fund accounting and provision of support for MCF's administration and operational accounting. Marin Accountants undertakes a full reconciliation of trust fund accounts every quarter.

[www.marinaccountants.com.au](http://www.marinaccountants.com.au)