

Monash University Procedure

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| Procedure Title | <u>Short Term Investment Pool Procedure</u> |
| Parent Policy | Investment Policy |
| Date Effective | 16-February-2016 |
| Review Date | 16-February-2019 |
| Procedure Owner | Executive Director, Corporate Finance |
| Category | Operational Procedure |
| Version Number | 1.0 |
| Content Enquiries | Elizabeth Feillafe |
| Scope | All Monash University and Monash University Foundation investment funds. |
| Purpose | To ensure management of Monash University and Monash University Foundation investments in accordance with Resource and Finance Committee approved objectives and strategic asset allocations. |
| PROCEDURE STATEMENT | |

The short term investment pool is made up of Operating Treasury and Tied Funds. This pool is split between internally managed funds and externally managed funds. Throughout the year, and notably through peak revenue collection periods, operating cash surplus to requirements needs to be invested at higher rates of return than that received in the University's transactional bank account. Treasury achieve this through the use of term deposits and other allowable short term and cash deposits. Corporate Finance Treasury work with the Financial Resources Management area to maintain rolling cash flow forecasts for Monash University. These forecasts, along with the analysis of daily cash requirements, are used as the basis for making short term investment decisions about funds that are surplus to requirements. All short term investments are made within the investment objectives and guidelines which are set under the governance of the Resources and Finance Committee. Management oversight of the short term investment pool has been delegated to the Investment Advisory Committee.

Investment Objectives: The primary objectives for the Short-Term Investment Pool are liquidity and capital preservation (low risk). Return is desired but is a lower priority. The investment objectives for the Short-Term Investment Pool are:

- i. Sufficient immediate (within 24 hours) liquidity to meet the University's cash flow requirements throughout the year;
- ii. Have negligible probability of a return in any one year being negative; and
- iii. To provide investment returns (after costs) in excess of the UBS Australia Bank Bill Index over rolling twelve month periods.

Investment Parameters – Externally Managed Funds:

- a) Minimum credit rating A2 (short term) and A-(long term) by Standard & Poor or Moody's equivalent.
- b) Maximum term to maturity of any investment is 5 years.
- c) Maximum weighted average maturity of the total Portfolio is 1 year.
- d) Maximum reset date for floating rate notes is 1 year.

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- e) Maximum term to maturity of any A2 issuers is 185 days from issuance
- f) Minimum limit of 50% of the Portfolio in investments with credit rating of A1.
- g) Maximum limit of 35% of the Portfolio in investments with credit rating of A2.
- h) Maximum limit of 10% of the Portfolio per issuer, in long term issuers with credit rating below A.
- i) Combined maximum limit of (g) and (h) above, should not exceed 50% of the Portfolio.
- j) Maximum limit of 10% of the Portfolio per issuer, with credit rating of A2.
- k) Maximum limit of 15% of the Portfolio per issuer, with credit rating of A1.
- l) Maximum limit of 25% of the Portfolio per issuer, with credit rating of A1+.

Investment Parameters - Internally Managed Funds:

- a) Allowable Investments:
 - 11am cash deposits
 - Cash deposits
 - Term deposits
 - Bank accepted bills
 - Negotiable certificates of deposit
- b) Credit Risk:
 - At least \$30 million or 15% of the Short-Term Pool, whichever is higher, to be invested in highly liquid cash investments internally managed investments with institutions with a Standard & Poor's A+ or higher rating or its equivalent.
 - Each institution invested with must have an acceptable credit rating provided by Standard & Poor's Australian Ratings and/or its Moody's, Fitch equivalent.
 - Investments must be with Australian licenced financial institution and / or Commonwealth or State Government, statutory authority, or guaranteed entity.
 - No more than 15% of the Short-Term Pool to be invested in internally managed investments with institutions with a Standard & Poor's A+ or lower rating or its equivalent.
 - No more than 40% of the Short-Term Pool to be invested in internally managed investments with an individual institution.
 - No more than 10% of the Short-Term Pool to be invested in internally managed investments with an individual institution with a Standard & Poor's A+ or lower rating or its equivalent rating.
- c) Liquidity Risk
 - At least \$30 million or 15%, whichever is higher, of the Short-Term Pool to be invested in highly liquid cash investments.
 - No more than 10% of the Short-Term Pool to be invested in internally managed investments with maturity more than 365 days.

1. Cash Forecasting and Investment Planning

- 1.1. Use information from approved University Budget and other sources of cashflow information to establish month by month cash balance forecasts for the year.
- 1.2. Update cash forecast monthly with actual cashflows and cash flow relevant information received throughout the month
- 1.3. Create estimates of daily cashflow requirements by collating all known cash flow information for all working days throughout the year

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- 1.4. Determine periods where there is significant cash surplus to the required liquidity buffer and establish a short term investment plan for internally managed funds for the year, using estimates of daily cashflow requirements as a guide for suitable maturity dates.
- 1.5. Provide recommendation and seek approval of plan for internally managed investments from Senior Vice President and Chief Financial Officer and Executive Director, Corporate Finance.

Responsibility

Funds manager, Treasury

2. Liquidity Management - Externally Managed Funds (BT Cash Management Account)

- 2.1. For the current day, update daily cashflow model established in procedure 1.3 with the latest available data and make appropriate estimates for unknown cashflow items.
- 2.2. Assess cash requirements for the current day and identify if there is a surplus or deficit in the University's transactional bank account.
- 2.3. According to requirements, deposit or withdraw funds to meet liquidity needs from the
- 2.4. Funds must be invested according to approved investment parameters.

Responsibility

Funds Manager, Treasury (2.1-2.3)

Appointed Fund Manager (2.4)

3. Creating Treasury Dealing Accounts

- 3.1. Identify licensed Australian Financial Services (AFS) Institution listed with ASIC that offer appropriate products for the internally managed investments program.
- 3.2. Make a recommendation and request for approval to the Senior Vice-President and Chief Financial Officer and Executive Director, Corporate Finance for the creation of a new dealing account with an appropriate provider including proposed authorised signatories.
- 3.3. Arrange for the dealing account to be opened in accordance with the approval and relevant bank procedures.

Responsibility

Funds Manager, Treasury

4. Placing Internally Managed Investments

- 4.1. Analyse the University's cash requirements as identified in the cashflow forecasting model and determine if there are funds surplus to \$30Mill/15% liquidity buffer that can be invested outside of the externally managed short term funds pool as per pre-approved internal investment plan from procedure 1.5.
- 4.2. Determine amount and term of funds to be invested
- 4.3. Provide recommendation for investment and identify and, if applicable, justify any deviations from original investment plan to Senior Vice President and Chief Financial Officer and Executive Director, Corporate Finance and seek their approval to proceed.
- 4.4. Determine which major banks and financial institutions to contact for interest rate quotes for the approved investment amount and term, following investment parameters and considering existing investment allocations. Note that some institutions reduce rates above defined wholesale deposit thresholds.
- 4.5. Assess quotes and choose best rate for required investment
- 4.6. Complete transaction with identified financial institution.
- 4.7. Prior to the maturity date of a given investment, re-evaluate the cash position as per procedure 1.4 and assess whether to reinvest maturity proceeds.

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- 4.8. Provide recommendation for re-investment and identify and justify any deviations from original investment plan to Senior Vice President and Chief Financial Officer and Executive Director, Corporate Finance and seek their approval to proceed.

Responsibility

Funds Manager, Treasury

5. Monitoring Investment Compliance and Performance

- 5.1. Where the maturity schedule of securities and/ or movement in the overall balance of the short term pool leads to investment parameters being breached, immediate rectification through redemption is not required but should be actioned as securities mature and new investments are made.
- 5.2. Breaches of investment parameters for credit risk are to be reported to the Senior Vice President and Chief Financial Officer, Investment Advisory Committee and Resources and Finance Committee.
- 5.3. A short term pool investment performance report is prepared quarterly and provided for the next scheduled Investment advisory Committee meeting.

Responsibility

Funds Manager, Treasury

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| Responsibility for implementation | Funds Manager, Treasury Executive Director, Corporate Finance Senior Vice President and Chief Financial Officer |
| Status | New |
| Approval Body | Name: Chief Operating Officer and Senior Vice-President (Administration) Date: 08-October-2014 Author: Executive Director, Corporate Finance |
| Definitions | <p>Internally Managed Funds: Short term investments that are directly placed with financial institutions by Corporate Finance Treasury. Internally managed cash investments are managed relatively conservatively with a focus on highly rated, large Australian financial institutions. The maturity profile and risk profile of these investments are determined by Monash University Treasury within a credit and liquidity risk framework set by the Resources and Finance Committee. These funds are generally invested with set maturity dates that cannot be broken with less than 31 days notice.</p> <p>Externally Managed Funds: A portfolio of indirect holdings in short term investments that are facilitated by a party external to the University. These funds are at call to meet daily liquidity requirements. The maturity profile and risk profile of the individual investments that make up the portfolio are determined by the external part within a credit and liquidity risk framework set by the Resources and Finance Committee.</p> <p>Operating Treasury: Is the daily operating cash balance of the University with a level of seasonality that sees it lows late and mid each calendar year.</p> <p>Tied Funds: Are made of multiple individual accounts containing philanthropic donations, effectively organised into individual foundations. Investments are split between cash, where the capital is expected to be utilised over the near-term (typically within two to three years) and/or the donor requests a very low risk investment approach, and the remainder which is invested in the "Common Fund" in a balanced portfolio of</p> |

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| | <p>investments.</p> <p>Investment Governance: The Monash University Council has approved a chain of responsibility for investments to the Resources and Finance Committee (R&FC), the sub-committee Investment Advisory Council (IAC), the Senior Vice-President Finance and Chief Financial Officer, and the Corporate Finance Department.</p> <p>Resources and Finance Committee: Has a governance oversight role approving investment policy and strategy.</p> <p>Investment Advisory Committee: A sub-committee of the Resources and Finance Committee which has a management oversight role, monitoring and reviewing investment relative to strategy, and approving investment manager appointments for both the University and the Foundation.</p> <p>Liquidity Buffer: At least \$30 million or 15% of the Short-Term Pool, which ever is higher, to be invested in highly liquid cash investments internally managed investments within institutions with a Standard & Poor's A+ or higher rating or its equivalent.</p> |
| Legislation Mandating Compliance | Monash University Act 2009 |
| Related Policies | Investment Policy |
| Related Documents | Monash University Investment Policy October 2014 (R&F approved document) Treasury Management Procedure Long Term Investment Pool Procedure |