

Financial Management Policy

Section 1 - Overview and scope

(1) This Policy supports the [Financial Management Rule](#) and outlines the objectives, processes, roles and regulations in place to guide UNE and its Controlled Entities in ensuring appropriate and consistent financial and financial risk management.

(2) This Policy applies to all UNE Representatives, including Controlled Entities, involved in financial and financial risk management.

(3) Within this Policy:

- a. Part A deals with risk appetite;
- b. Part B deals with liquidity and funding;
- c. Part C deals with interest rate management;
- d. Part D deals with foreign exchange transactions;
- e. Part E deals with investments;
- f. Part F deals with financial counterparties; and
- g. Part G deals with financial operational risk.

Part A - Risk Appetite

(4) Financial risk and return must be considered in the context of UNE's short, medium and longer-term goals. UNE's overall risk appetite is moderate, primarily because it is a not-for-profit government-owned enterprise and requires predictable financial performance and position. However, individual projects or controlled entities may adopt more risk tolerant approaches in order to achieve specific, approved goals and objectives in accordance with approved policy.

Part B - Liquidity and funding

(5) The University funding requirements and funding strategy will be reviewed annually and set out in the annual budget approved by Council. To ensure adequate liquidity and funding for all circumstances, UNE aims to:

- a. ensure access to sufficient cash and facilities to meet financial obligations as they fall due with a target current ratio between 1.2 and 3.0*;
- b. ensure sufficient excess liquidity to meet financial obligations in the event of unexpected business disruption;
- c. diversify revenue through having three or four income sources, both government and non-government, all preferably providing above fifteen percent of total revenue and none below five percent;
- d. ensure compliance with borrowing facility undertakings;
- e. ensure effective, efficient and orderly use of credit facilities with reliable liquidity management planning and procedures;
- f. ensure that the debt maturity profile is appropriately structured, taking into account the infrastructure and working capital funding requirements, asset/liability matching and refinancing risks;
- g. seek an appropriate mix of capital in order to access diverse funding sources with debt no more than 10% of

capital; and

- h. ensure an interest coverage ratio of at least 1.5 while ensuring the current ratio for untied assets/untied liabilities remains within 1.2 and 3.0*.

*In extenuating circumstances, the Finance and Infrastructure Committee may approve exceptions to these ratios.

Managing liquidity and funding risk

(6) UNE will manage liquidity and funding risk through a liquidity reserve. The minimum liquidity reserve will be the sum of amounts required to cover the forecast shortfall (if any) in actual net cash flow, event risk, committed and uncommitted borrowing maturing within the next twelve months and strategic funding purposes.

(7) To manage short-term operating liquidity, a target operational cash float will be maintained, based on the minimum cash required to cover regular costs. Access to the short term operational cash float must be immediate.

(8) Debt maturities will be spread out to limit risk on debt rollover. Any new facilities negotiated will be contracted with an adequate spread of maturities, taking into account the duration in debt funding requirements, balanced with the cost of capital over short or long tenors.

(9) Where practical and cost-effective, UNE will access diverse sources of funding in order to reduce re- financing risk. Funding sources may include banks, mutuals, and capital markets.

Part C - Interest Rate Management

(10) The Finance and Infrastructure Committee will approve interest rate risk management strategies. UNE's strategy is to maximise returns while limiting risk to an acceptable level, minimise large variations in revenue or expenses and ensure an appropriate flexibility to accommodate potential changes in funding requirements.

(11) UNE Treasury will manage debt interest rate risk by determining the appropriate level of fixed and floating rate exposure in each maturity band. The benchmark, and authorised ranges, will be based on a percentage of fixed interest rate exposure per year.

(12) Authorised ranges for fixed interest rate exposure on borrowings are set out in the following table:

Table 1: Authorised ranges for fixed interest rate exposure on borrowings

Maturity	Minimum fixed rate exposure	Maximum fixed rate exposure
<5 years	50%	100%
>5 Years	40%	60%

Part D - Foreign exchange transactions

(13) UNE Treasury is responsible for managing foreign exchange transactions and will use forward contracts (fixed or participating) and foreign currency bank accounts (with a combined balance of up to 100% of UNE's expected annual forex obligations) as foreign exchange products.

(14) UNE Treasury aims to, where possible and appropriate, employ hedging strategies to minimise large variations in cash flow arising from the impact of exchange rate movements.

(15) Committed (timing and amount) foreign currency exposures identified in excess of AUD \$100,000 will be hedged between 50 and 100%, to the expected date(s) of settlement. It is the responsibility of the relevant directorate, faculty to identify possible foreign currency transactions early and to formally request hedging cover immediately to UNE

Part E - Investments

(16) In managing UNE's investments, UNE Treasury aims to:

- a. maximise return while limiting risk to an acceptable level;
- b. select investments/investment portfolios that will protect the nominal value of capital over the term of the investment;
- c. make investment that ensure University cash flow requirements are met as and when they fall due;
- d. invest in accordance with Schedule 2 of the [University of New England Act 1993 \(NSW\)](#), and the University of New England (Investment Powers) Order 2003;
- e. construct investment portfolios with appropriate asset allocation, liquidity and diversification;
- f. seek, for commercial activities, a return on investment target equal to or higher than current cash management rates;
- g. invest solely in the best interests of UNE and invest with care, skill, prudence and due diligence;
- h. observe conditions attached to bequests/donations when investing; and
- i. assess the merits of any prospective investments within the framework of UNE's core values, specifically sustainability and ethical behaviour.

(17) Investment returns may experience volatility and fluctuations in market value. The University will tolerate volatility as measured against the volatility of a comparable market index in each asset class and a composite index based on the strategic allocation to each asset. The benchmarks and indices outlines in Appendix 2 are used as a measure of an investment manager performance and will also be used to benchmark what is allowable volatility.

(18) The types of UNE investments are outlined below:

- a. Short-term investments (Short-term Pool): These investments provide liquidity to meet short-term operational and capital commitments through financial instruments that are liquid, at interest rates higher than the transaction bank account and that have minimal chance of loss of capital. A fund manager may be engaged to manage part of or the entire fund. Investments are limited to Asset Classes detailed in Clause 22 and instruments listed in the Appendix 1 – Allowable Investments.
- b. Medium-term investments (Medium-term Liquidity Pool): These investments allow UNE to take advantage of higher returns available on longer dated securities. A suitably qualified adviser or fund manager should be engaged to manage and/or advise on these investments. Investments are limited to Asset Classes detailed in Clause 22 and instruments listed in the Appendix 1 – Allowable Investments.
- c. Long-term investments (Long-term Pool): These investments align with the long-term strategic objectives of the University and are typically growth asset categories with higher returns than fixed interest, but with a probability of a negative year in no less than one year in every four. A suitably qualified adviser or fund manager should be engaged to manage these investments. Investments are limited to Asset Classes detailed in Clause 22 and instruments listed in the Appendix 1 – Allowable Investments.

(19) Authorised investment products are listed in Appendix 1.

Fund advisers and managers

(20) To assist with managing investments, UNE Treasury and UNE's controlled entities may:

- a. employ fund advisers/managers to achieve its investment objectives. Where the services of fund managers are used, the managers will have full responsibility for the investment of the assets, within agreed mandates; and

- b. seek advice from an investment adviser for services including but not limited to assessing the risk of investment in each investment category, the combined risk and return characteristics of the investment funds relating to each category, and in general product advice.

(21) Any fund advisers and managers must, at all times during which investments are made, hold a current Australian Financial Services Licence and comply with their obligations under all laws including applicable ASIC policies and the conditions of any ASIC Class Order or individual relief granted by ASIC. Engaging a new fund adviser/manager must be approved by the Finance and Infrastructure Committee, Council and, where required by law, the NSW Treasurer.

(22) Financial limits for investment transactions are outlined in the UNE schedule of financial delegations. The following table sets limits for maturity, liquidity and investment targets.

Table 2: Limits for maturity, liquidity and investment targets

	UNE Short-term Investments	UNE Medium-term Investments (Liquidity Pool)	UNE Long-term Investments
Time Horizon	1 year or less	>1 year <5 years	>5 years
Accessibility/liquidity	Within 30 business days	Within 30 business days	80% liquid within 30 business days
Target return	Bloomberg AusBond Bank Bill Index	Bloomberg AusBond Credit FRN Index	CPI + 3.5%
Target term	12 months	36 months average	>5 years

(23) UNE Treasury aims to allocate investments per the following tables:

Table 3: Investment allocation - short-term pool

Short-term Pool	Strategic benchmark	Tolerable range
Defensive Assets		
Cash and cash equivalents	100%	100%
TOTAL	100%	

Table 4: Investment allocation - medium-term liquidity pool

Medium-term Liquidity Pool	Strategic benchmark	Tolerable range
Defensive Assets		
Cash and cash equivalents	5%	0-30%
Government	0	0-95%
Credit*	95%	0-95%
TOTAL	100%	

* Refer to credit exposure guidelines specific to the Medium-Term Liquidity Pool in Part F

Table 5: Investment allocation - long-term pool

Long-term Pool	Strategic benchmark	Tolerable range
Defensive Assets		
Cash and cash equivalents	5%	0-40%
Government Bonds	0%	0-20%
Credit*	15%	0-40%
Growth Assets		
Real Assets	12%	0-20%
Equity - Domestic - Australian	30%	10-50%
Equity - Overseas	33%	10-50%
Uncorrelated Assets	5%	0-10%
TOTAL	100%	

*Refer to credit exposure guidelines specific to the Medium-Term Liquidity Pool in Part F

Part F - Government and Corporations counterparty credit exposures

(24) To ensure counterparties to UNE's financial transactions are creditworthy and that the transactions are within approved delegations, UNE Treasury will:

- set counterparty limits based on the credit rating of the instrument issued; and
- identify and report all counterparty exposures for regular review against counterparty limits.

(25) The following sets counterparty limits for the Short-term and Medium-term Liquidity Pool investments:

- The Short-term Pool allows investment in cash and with Authorised Deposit Taking Institutions that have a Standard & Poors (or equivalent) investment grade rating of BBB - or above, or the Commonwealth or State Government with an investment grade rating of AA- or above, with a maximum term to maturity of 12 months.
- Direct Credit Exposure Guidelines - Medium-term Liquidity Pool: All fixed income investments (bonds and hybrids) must be of investment grade credit quality with ratings of between 'AAA' and 'BBB-'.
- the following rating category exposure limits are placed on the Medium-term Liquidity Pool portfolio to reduce credit risk:

Table 6: Risk rating category exposure limits - medium-term liquidity pool

Rating category (Issue Rating)	Limits (maximum ratio)	Maximum Term to Maturity
AAA or lower	100%	5 years
AA- or lower	70%	5 years
A or lower	70%	5 years
BBB to BBB-	50%	5 years
Unrated	0%	

- The following investment limits are designed to promote diversity of instruments while reducing potential concentrations in potentially illiquid or higher risk instruments for the Medium-term Liquidity Pool.

Table 7: Investment limits - medium-term liquidity pool

Investment Type	Percentage (%) of Portfolio
Senior (secured and unsecured debt)	0 – 80%
Subordinated debt	0 – 40%
Hybrids	0 – 20%

- a. In the Medium-term Liquidity Pool credit instruments can be invested in hybrid securities and combined with subordinated bonds these two instruments however cannot exceed 50% of the portfolio.

(26) The following sets the issue rating limits for Long-term investments:

- a. Direct Credit Exposure Guidelines – Long-term Pool: The majority of fixed income investments (bonds and hybrids) must be of investment grade credit quality
- b. There is capacity within the Long-term Pool to invest up to 15% within sub-investment grade. The following rating category exposure limits are placed on the portfolio to reduce credit risk.

Table 8: Issue rating limits - long-term pool

Rating category (issue rating)	Limits (Maximum Ratio)	Maximum Term to Maturity
AAA or lower	100%	10 Years
AA or lower	100%	10 Years
A or lower	80%	10 Years
BBB or lower	50%	10 Years
Unrated	15%	10 Years

(27) The following investment limits are designed to promote diversity of instruments while reducing potential concentrations in potentially illiquid or higher risk instruments for the Long-term Pool.

Table 9: Investment limits - long-term pool

Investment Type	Percentage (%) of Portfolio
Senior (secured and unsecured debt)	0 – 80%
Subordinated debt	0 – 40%
Hybrids	0 – 35%
Private Debt	0 – 15%

(28) Other Considerations – For both the Medium-term Liquidity Pool and Long-term Pool:

- a. Counterparty Concentration Limits (for both Pools): Investments in credit investments must not exceed 30% of the aggregated exposures across the Medium-term Liquidity Pool and the Long-term Pool.
- b. Hybrid Securities: Where the issuer of a Hybrid Security does not apply for an issue rating then, taking into account the position of the hybrid in the capital structure, the appropriate shadow rating will be applied.
- c. Managed Funds: Where investments are held via managed investment funds, the average credit rating of the portfolio of securities will be the measure of the credit rating of the managed fund as a whole.

(29) The following benchmarks are to be utilised for performance measurement of the underlying individual investment asset classes.

Table 10: Individual investment asset classes benchmarks

Asset class	Benchmark
Cash	Bloomberg AusBond Bank Bill Index
Government Bonds	Bloomberg Barclays Global Aggregate Treasuries Total Return Index, Hedged AUD
Credit	Bloomberg Barclays Global Aggregate – Credit Total Return Index Hedged AUD
Real Assets	FTSE/NAREIT Global Index Total Return (Property), AUD; and FTSE Developed Core Infrastructure 50/50 Total Return Index, AUD
Australian Equities	S&P ASX 200 Accumulation Index
International Equities	MSCI ACWI Gross Total Return Index, AUD
Uncorrelated Strategies	ABS AUS CPI + 2.0%

Part G - Financial Operational Risk

(30) UNE Treasury will minimise the potential for financial loss through:

- a. insurable events by insuring against material risks where economic to do so; and
- b. human error, fraud or the inappropriate use of financial instruments by:
 - i. clearly defining the roles, responsibilities and authorities of staff involved with financial transactions;
 - ii. ensuring key processes and corresponding controls are adequate and operate effectively; and
 - iii. ensuring compliance with audit, contractual and statutory requirements.

(31) Any breaches of financial management Policies or Rules will be reported immediately to the Chief Financial Officer, who will determine whether corrective action is taken. The breach will be reported to the Finance and Infrastructure Committee at its next meeting, including the reasons for the breach occurring, and the corrective action taken, if any.

Section 2 - Authority and Compliance

(32) The Finance and Infrastructure Committee makes this Policy.

(33) UNE Representatives must observe this Policy in relation to financial management.

(34) This Policy is consistent with UNE's obligations under section 16 of the [University of New England Act 1993 \(NSW\)](#).

(35) UNE Representatives are required to store all decisions around financial and financial risk management in UNE's Records Management System (RMS).

(36) This Policy operates as and from the Effective Date. Previous versions of the Financial Management Rule are replaced and have no further operation from the Effective Date.

(37) Notwithstanding other provisions of this Policy, the Vice-Chancellor and Chief Executive Officer may approve an exception to this Policy where the Vice-Chancellor and Chief Executive Officer determines the application of the Policy would otherwise lead to an unfair, unreasonable or absurd outcome. Approvals by the Vice-Chancellor and Chief Executive Officer under this clause must be documented in writing and must state the reason for the exception.

Section 3 - Quality Assurance

(38) The implementation of this Policy will be supported and measured by the Chief Financial Officer conducting an annual review of UNE's financial management, particularly investment practices and performance, and reporting on compliance with this Policy to the Finance and Infrastructure Committee and Vice-Chancellor and Chief Executive Officer.

Section 4 - Definitions

(39) Counterparty: the other party that participates in a financial transaction.

(40) Interest coverage ratio: measures how many times a company can cover its current interest payment with its available earnings.

(41) Liquidity: funds where availability is both immediate and unrestricted

(42) Risk Appetite: the level of financial risk that is accepted as being consistent with an organisation's goals.

Appendix 1 - Allowable Investments

Within the asset allocation ranges established for each of the investment pools, only investments in the following instruments are permitted:

(43) Cash

- a. Cash deposits
- b. Cash Management Trusts/investments backed by Australian licensed and regulated banks and deposit taking institutions (ADI)
- c. Term deposits
- d. Exchange Traded Funds (ETF's)

(44) Government Bonds

- a. Direct Government & Semi-Government bonds
- b. Managed funds that are predominantly invested in these assets
- c. Exchange Traded Funds (ETF's)

(45) Credit (Domestic & Global)

- a. Corporate securities and direct securities within this class
 - i. Direct Hybrid Capital issues
 - ii. Private Debt

- iii. Absolute Return
 - iv. Social and Environmental Bonds - e.g. Social Impact Bonds, Green Bonds, Gender and/or Social Development Goal Bonds
 - v. Managed funds that are predominantly invested in these assets.
- b. Where investments are held via managed funds, the average credit rating of the portfolio of securities will be the measure of the credit rating of the managed fund as a whole.
 - i. Exchange Traded Funds (ETF's)
 - ii. Mezzanine finance
 - iii. Private credit

(46) Uncorrelated Strategies

- a. Managed uncorrelated asset products any investment that demonstrates clear uncorrelated characteristics such as:
 - i. Market Neutral strategies
 - ii. Global Macro strategies
 - iii. FX
 - iv. Commodities
 - v. Managed funds that are predominantly invested in these assets
 - vi. Exchange Traded Funds (ETF's)

(47) Real Assets

- a. Directly held property
- b. Listed Real Estate Investment Trusts
- c. Property Trusts
- d. Infrastructure
- e. Renewables and Natural Resources
- f. Managed funds that are predominantly invested in these assets
- g. Exchange Traded Funds (ETF's)

(48) Equity – Domestic

- a. Direct ASX listed equities.
- b. Listed Investment Companies, Funds or Trusts (LICs, LITs) with an Australian focus.
- c. Exchange Traded Funds (ETFs).
- d. Managed Investments that are predominantly invested in Australian markets covering strategies such as:
 - i. Equity long only, Equity long / short, and
 - ii. Private equity / Venture Capital.

(49) Equity – Global

- a. Direct Global Equities — listed on a recognised major stock exchange
- b. Listed Investment Companies, Funds or Trusts (LICs, LITs) with an international focus c.g. Exchange Traded Funds (ETFs) d.h. Managed Investments that are predominantly invested in Global markets covering strategies such as:
 - i. Equity long only, Equity long / short, and
 - ii. Private equity / Venture Capital

(50) Derivatives

- a. Derivatives may be considered should the Finance and Infrastructure Committee decide to take a recommendation to the Council; and
- b. Derivatives are never to be used for speculative purposes.

Status and Details

Status	Historic
Effective Date	2nd August 2022
Review Date	2nd August 2025
Approval Authority	Council
Approval Date	2nd August 2022
Expiry Date	6th December 2023
Unit Head	Ilias Dimopoulos Head of Finance
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Glossary Terms and Definitions

"UNE Representative" - Means a University employee (casual, fixed term and permanent), contractor, agent, appointee, UNE Council member, adjunct, visiting academic and any other person engaged by the University to undertake some activity for or on behalf of the University. It includes corporations and other bodies falling into one or more of these categories.

"In Writing" - Means by letter, email or fax.

"Bequest" - Is the act of giving or bequeathing property both real and personal and including cash and funds, by way of testament or will.

"Controlled Entity" - Means a person, group of persons or body of which the University or Council has control within the meaning of a standard referred to in Section 39(1A) or 45A(1A) of the Public Finance and Audit Act 1983.

"Records Management System (RMS)" - The University of New England installation of HP TRIM, or equivalent replacement system, under the control of the Records Management Office.

"Effective Date" - means the Rule/Policy takes effect on the day on which it is published, or such later day as may be specified in the policy document.

"Approval" - A statement to indicate the official acceptance of a proposal, recommendation, or other matter. It is a function of the role/committee with delegated authority to do so.