

## **NPGA Investment Policy Statement**

General policy advice

April 2024

# NATIONAL PORTRAIT GALLERY

## Policy control sheet

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## 1 The Purpose of the National Portrait Gallery of Australia

The purpose of the National Portrait Gallery of Australia to:

- develop, preserve, maintain and promote a national collection of portraits and other works of art; and
- develop and engage a national audience for the collection, exhibitions, education, research, publications, and public and online programs.

This Investment Policy Statement describes the policy of the Board of the National Portrait Gallery of Australia (NPGA) with respect to the investment of donated funds as well as the prudent and careful management of those funds.

All funds other than donated funds can only be invested in accordance with section 46 of the *National Portrait Gallery of Australia Act 2012* (NPGA Act) and section 59 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

## 2 Scope of this document

This Investment Policy Statement specifies the parameters for investing and managing available donated funds.

Specifically, it describes NPGA's investment policy objectives; the funds under investment and the strategies in relation to those funds; NPGA's risk appetite in relation to generating a return on the funds employed; responsibilities for governance; specific investments that are allowed; the process for the appointment of investment advisers; and benchmarks for assessing the performance of the fund. It also describes the frequency for reviewing this policy.

## 3 Investment policy objectives

### 3.1 Objective

The NPGA invests its donated funds to support the agency's goals over both the short and longer term. More specifically the stated investment objectives of the NPGA are to protect and grow the capital base generated by its Foundation Committee (the Foundation), while providing sufficient income and liquidity to provide for acquisitions and other programs.

As a result, the Investment Policy Statement needs to be able to respond flexibly and responsively to the current and future needs of those who entrust the NPGA via the Foundation with donated funds, while overseeing the management of funds for the longer term.

### 3.2 Investment framework

The Board of the NPGA expects the Investment Committee of the NPGA to adopt sound investment principles, which include income generation targets, exposure to capital growth and sound diversification guidelines, while having appropriate regard to risk.

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The Board recognises that asset values may decline in real terms from time to time, but expects that over a normal investment cycle, the minimum performance return of maintaining initial capital in real terms will be met and exceeded.

## 4 Management of risk

In seeking to optimise investment returns, the Board is mindful of risks that are inherent in investments. Those risks are considered both because they have an impact on the value of capital generated by the Foundation and held by the NPGA, but also because risk is expected to be offset by a reasonable expectation of return above the risk free rate over the time horizon of the Fund as defined. Risks accepted in order to pursue the investment objective fall into a number of broad categories.

### 4.1 *Liquidity risk*

The Board recognises that short term risks may arise from the potential of the Fund to experience a shortfall in the income required to meet the expected cash outflows from the Fund. To offset this, the Fund should:

- maintain sufficient liquidity to meet its requirements; and
- take into account expected cash flows and costs.

The Board also recognises that there is a premium to be earned on investments that are less liquid than others, such as term deposits rather than cash, and that this premium can be measured in the search for additional investment returns. Term deposits within the Cash asset class are to be limited to terms of less than 12 months duration.

### 4.2 *Credit risk*

Credit risk (or counterparty risk) is the risk of default by the counterparty to a transaction on its contractual obligations. Appointed Asset Managers are required to ensure:

- the credit quality within the manager's portfolio is within defined guidelines;
- the exposure to different tiers of credit (including unrated debt) are within agreed guidelines; and
- the maximum permitted exposure to any one issuer is within agreed guidelines;

### 4.3 *Market risk*

The NPGA holds exposure to a wide range of assets which the Board expects will produce returns divergent from and superior to the risk-free rate over the long term.

Principal exposures include:

- equity market risk, both globally and in Australia;

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- debt market risk, including interest rate duration, credit spread duration, credit quality migration and default risks;
- currency exposure, including risks of movement in the value of both the Australian dollar and any foreign currencies held;
- correlation risk – the risk that a broad range of asset classes moves simultaneously, despite attempts to diversify;
- performance within broad asset markets (e.g. divergence in returns by sector, geographic region, growth vs. value styles, and large vs. small stocks); and
- return uncertainties within the illiquid property and private unlisted markets.

## 4.4 *Manager risk*

The expectation that the NPGA will deliver superior returns entails risks in relation to a specific manager. In particular, appointed Asset Managers may exceed or fall short of the objectives set for them by the Investment Committee.

Manager risk is generally mitigated by:

- careful selection and monitoring of Asset Managers to provide sufficient confidence that each manager warrants the allocation of active risk to them; and
- monitoring the composition of the portfolios of active managers to avoid unintended biases away from the intended investment strategy.

## 4.5 *Operational risk*

Operational risk may involve an economic loss or reputation risk. It includes fraud, theft, unauthorised use of financial instruments and other breaches of delegated authority. This also includes loss due to poor transaction documentation, inadequate information systems or human error.

To minimise this risk the Investment Committee, the Board requires the Chief Operating Officer (COO) to:

- keep proper accounts and records of the transactions and affairs; and
- maintain an internal control framework that minimises potential loss arising from unrecorded or unauthorised transactions.

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## 5 Investment funds and strategies

### 5.1 Diversification

In accordance with a prudent investment approach, the principle of diversification is employed by the Fund to reduce the likelihood of generating negative returns for donated funds. Appropriate diversification of managed funds and individual investment selection will be undertaken to offset investment risk, while recognising that in extreme markets the risks associated with asset categories might be correlated.

The benchmark represents the long term asset allocation for the Fund that best reflects the desired risk profile. It is understood that with market fluctuations, withdrawals and contributions it is unlikely that at any point in time the actual asset allocation will be strictly equivalent to the benchmark.

### 5.2 Investment strategy

The annual budgeted expenditure of the Foundation will be quarantined and not invested under this policy.

The NPGA has a mission that requires growth in assets as well as providing funds for acquisitions and other programs.

It therefore needs to manage the challenges of delivering growth to preserve the real value of the capital fund whilst delivering a regular income flow and managing volatility within a risk framework.

To ensure this requirement is met, the Board has approved the adoption of a Balanced investment strategy. The Strategic Asset Allocation and performance characteristics of a Balanced investment strategy are reflected below:

Asset Class	Minimum Allocation	Benchmark Allocation	Maximum Allocation
Cash	1%	1%	100%
Fixed Interest	0%	29%	90%
Australian Property	0%	3%	30%
International Property	0%	2%	10%
Australian Equities	0%	25%	60%
International Equities	0%	30%	50%
Alternative Assets	0%	10%	20%
<b>Total</b>	-	<b>100%</b>	-

The Benchmark Allocation for Donated Funds is designed to keep pace with the growth in general equity asset prices in the long term, albeit with periods of shorter-term volatility. The NPGA will set a target return, over rolling five year periods, for its investments above CPI. The appropriateness of the rate above CPI will be reviewed, at least, annually.

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## 5.3 Ethical investment considerations

The NPGA seeks to act as a responsible community member, making investments that are consistent with the purpose of the NPGA.

The Investment Adviser must, therefore, consider the nature of each category of proposed investment and its suitability, given the NPGA's operating environment.

Environmental Social and Governance (ESG) factors are increasingly important for the investment industry sectors. The NPGA prefers Asset Managers that have integrated ESG into their investment philosophy and processes.

The Investment Committee understands and accepts that the exclusion of industries and specific stocks has the potential to limit the available investment universe and, as such, may limit the risk-adjusted return generated by the Fund.

## 6 Permitted investments

### 6.1 Permitted investments

Within the asset classes, the following investments are permitted:

- **Cash**
  - cash deposits, cash management trusts/investments with Australian licensed and regulated banks and deposit taking institutions with no less than a AA credit rating; and
  - term deposits with maturities less than 12 months.
- **Fixed Interest**
  - direct government and corporate bonds;
  - term deposits with maturities greater than 12 months;
  - managed fixed interest products; and
  - direct hybrid securities.
- **Australian Property**
  - listed real estate investment trusts (REITs).
- **Australian Equities**
  - direct equities;
  - managed domestic equity products;
  - listed investment companies; and
  - exchange traded funds.
- **International Equities**
  - direct equities;
  - exchange traded funds;



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- managed international equity products; and
  - listed global real estate investment trusts.
- **Alternative Investments**

Alternative investment products relate to strategies such as:

- Private Equity and Venture Capital
- Private Debt (included direct lending, distressed and special situations strategies)
- Structured Credit (including asset and receivable finance, and non-traditional contracted cash flows such as royalties and insurance-linked products)
- Natural Resources (including commodities, energy and forestry / timberland)
- Property
- Infrastructure
- Hedge Funds
- Collectables.

Alternative investments may be included in the portfolio to provide a lower correlation to other asset classes. Their inclusion in a well-diversified portfolio has the ability to potentially improve risk-adjusted returns.

Alternative investments are able to be utilised within the defined bands by the Fund Manager to manage portfolio risk by diversifying away from asset classes where additional allocation would potentially lead to underperformance.

## 6.2 Hedging policy

The Investment Committee acknowledges that investments in non-Australian assets may be beneficial to the performance of the portfolio both from a risk and return perspective. The Investment Committee also acknowledges that international investments may be hedged in an attempt to protect against movements in the Australian dollar relative to the offshore currency that is being used to acquire international investments.

Hedging of the international elements of the portfolio will be permitted from time to time.

Currency investment transactions may only be used to hedge other international asset exposures in line with the Committee's recommendations, and currency exposures may not be established for a speculative purpose.

## 6.3 Due diligence

All investments will be made subject to satisfactory due diligence and must be supported by authoritative research.

The following due diligence criteria is required in the Investment Advisor approving a new Fund Manager or investment product or service. Such due diligence criteria should form a part of any recommendation.

- A minimum track record of 3 years;
- Long track record of consistent outperformance. Performance should be evaluated against the peer group's median return for 1, 3 and 5 year cumulative periods;
- Should not have experienced declines in FUM (or equivalent) greater than those that can be explained by normal market movement;
- The cost of implementation and on-going charges must be clearly explained in their entirety and have competitive fees relative to peer group;
- There should be no actual or perceived organisational problems and a stable management team;
- Where a managed fund is used, there should not be a mismatch between the redemption terms of the fund and the liquidity of the underlying assets of the fund;
- Provide regular distributions;
- Provide a local vehicle for investment, have local client servicing ability and an investor base in Australia;
- Hold an appropriate Australian Financial Services License (as applicable to a distributing Australian domiciled unit trust);
- Have appropriate professional indemnity insurance cover and provide evidence of such cover upon request; and
- Provide effective reporting to allow the Investment Committee and Board to carry out their responsibilities.

## 7 Benchmarks and performance measurement

### 7.1 Performance reporting

The Investment Adviser will present to the Investment Committee as required, but at least on a quarterly basis. The investment portfolio performance report is to be compiled by the Investment Adviser and will be provided on a quarterly basis or as required. The report is to include:

- Return on investment, including income and capital movements;
- Market environment;

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- Return on assets managed relative to the relevant benchmarks;
- Manager performance including current Fund Manager ratings;
- Actual and Strategic Asset Allocation;
- Any current or emerging issues in relation to markets and/or investment managers; and
- Recommendations improving returns or reducing risk.

## 7.2 Benchmark selection

The Investment Adviser’s performance is to be evaluated by setting absolute return guidelines – typically a CPI + x% target in line with the risk appetite of the Fund, and intended to achieve the investment objectives. For comparative purposes, the Adviser will demonstrate performance by asset class and attribution against market-related benchmarks by asset class and median manager performance comparisons.

A good benchmark is measurable, testable, specified in advance and appropriate for the manager’s style and approach. The benchmark will be used for managed investments including direct share portfolios, i.e. measured against Australian equities S&P/ASX 200 Accumulation Index.

The following benchmarks are to be used as guidelines for individual asset classes, or as otherwise advised:

Asset Class	Benchmark
Cash	Bloomberg AusBond Bank Bill Index
Fixed Interest	Bloomberg Australia Composite Bond Index
International Fixed Interest	Bloomberg Barclays Global Agg (Hdg)
Australian Property	MSCI/Mercer Australian Property
Australian Equities	S&P/ASX 200 Accumulation Index
International Equities	MSCI World ex Australia Accumulation Index A\$
Alternative Assets	Defensive Alternatives - AusBond Bank Bill Index + 1% Growth Alternatives – Bloomberg AusBond Bank Bill Index + 5%

## 7.3 Fund Manager monitoring

Regular review and analysis of the manner in which the NPGA’s investments are being managed is an important part of on-going due-diligence in managing the invested assets.

The Investment Committee, on the advice of the appointed Investment Adviser, will continually review whether management of the invested funds of the NPGA continues to conform with the criteria outlined in this Policy Statement, specifically:

- Adherence to the approved asset allocation, risk tolerance and guidelines contained within the Investment Policy;

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- Material changes in any manager's organisation, investment policy or philosophy or key staff;
- Any legal, ASIC or other regulatory agency proceedings affecting any manager;
- Any ratings agency change that reduces any manager or their product(s) to below the applicable threshold.
- The Investment Committee will review the performance of the investment and the Fund Manager against the relevant benchmark(s).

## 8 Governance of the Investment Policy

### 8.1 *The Board of the NPGA*

The Board of the NPGA has ultimate responsibility for ensuring that the investment of funds is properly managed. The Foundation of the NPGA will also be kept informed given its responsibility for raising funds. The Board has delegated authority to the Investment Committee to set broad operational guidelines and strategies for the management of these funds within the approved policies.

Specifically, on the advice of the Investment Committee, , the NPGA Board is required to:

- Approve, maintain and review the Investment Policy;
- Approve asset allocation bands, investment guidelines, and portfolios;
- Appoint members to the Investment Committee; and
- Set, review, and amend, when appropriate, the spending or drawdown policy, i.e. determine how much of the income or realised gains within the Fund can be used for specific expenditures by the NPGA.

### 8.2 *Chief Operating Officer (COO)*

The Chief Operating Officer (COO) is responsible to the Investment Committee for the day-to-day administration of the investment portfolio. Actions decided by the Investment Committee will normally be implemented by the COO through the Fund Manager, and the COO is delegated to put into effect recommendations of the Fund Manager, as long as these recommendations are in line with the Investment Policy.

Specific responsibilities include:

- Preparing performance and compliance reports for the Investment Committee;
- Investing the cash component of the investment portfolio, if appropriate;
- Acting in accordance with specific delegated authorities in relation to investments;
- Managing the day to day relationships with the Investment Advisers and/or Funds Managers;
- Ensuring proper recording and accounting of Fund investments and cash flows;

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- Attending to all paperwork and settlement requirements and corporate actions on behalf of NPGA;
- Ensuring all investments shall be registered in the name of the NPGA; and
- Liaising with the Chairman of the Investment Committee to provide appropriate governance for the Investment Committee.

## 8.3 Investment Adviser

The role of the Investment Adviser is to implement the investment strategy in line with the policy described in this document.

An appointed Investment Adviser will be required to comply with authority and responsibilities as follows:

- Comply with the investment policy at all times. Any exceptions are to be approved by the Board upon recommendation from the Investment Committee;
- Report all compliance breaches to the Investment Committee;
- Provide input to the asset allocation benchmarks and tolerance bands that will deliver the requirements of the investment policy for approval by the Investment Committee;
- Monitor all Fund Managers engaged by the NPGA;
- Prepare and provide portfolio reporting in a reasonable timeframe to the Investment Committee;
- Compare the NPGA's performance relative to its objectives and benchmark and report in detail thereon;
- Compare the NPGA's actual asset allocation with the set benchmarks;
- Compare the performance of the NPGA's investment managers with other comparable managers;
- Report on changes in managers or management of invested Funds, economic settings, investment and legislative environment which may require further analysis or changes to the asset allocation;
- Respond to all other requests for information from the Institution within a reasonable timeframe;
- Attend and present at Investment Committee meetings.

The Investment Adviser may provide service to the Investment Committee on a discretionary or fully-advised basis, as nominated by the Investment Committee. A discretionary service means that the Adviser takes action on investment selection, corporate actions (takeover offers etc), and reports the action to the Investment Committee at regular intervals. A fully-advised model means that all actions of this kind are recommended to the Investment Committee which in turn approves each action before it is taken.

## 9 Appointment of adviser(s)

The Investment Committee may appoint advisers in a number of areas including:

- investment policy, including asset allocation, manager research, specialist asset classes;
- legal, including advice on the statutory obligations of the Fund and assistance with contract negotiations with external parties;
- tax, including ensuring any tax and reporting obligations of the Fund are met and advising on the tax implications of particular investment structures ; and
- audit, including advice on ensuring that the management controls in place within the Fund are of sufficient standard.

## 10 Review of the Investment Policy

The review of the Investment Policy is the responsibility of the Board on the recommendation of the Investment Committee. In reviewing the Policy, the Investment Committee will consult with the Foundation.

The policy should be reviewed annually or if major changes in capital markets, regulatory environment, or the investment environment occur. Such changes may include:

- Fundamental change in the long term inflation rate or in expected investment returns;
- Emergence of new investment products or product offerings;
- Change in Government policy; and
- Significant change in governance structure, eg changes in composition of the Board.

The Investment Adviser will be expected to provide relevant information with respect to such developments promptly, as well as a view and recommendation as to their impact on the portfolio from time to time.

Proposed changes to the policy will be recommended by the Investment Committee for ratification. Once recommended changes have been approved, the Chief Operating Officer shall ensure that the changes are incorporated into the policy.

The policy will be reviewed and updated annually or as required to account for major changes in investment objectives and guidelines.

### Breaches of Investment Policy

Where the Investment Adviser or specific Fund Manager is in breach of the terms of the Investment Policy, the Investment Committee must conduct a review of the causes of the breach. Depending on the findings of a review, the Investment Adviser and/or specific Fund Manager may be terminated outside the formal review cycle.

The Investment Adviser will provide reporting on a quarterly basis where it will review, identify and disclose any breaches of this policy and the materiality of the breach to the Board.

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A breach of more than 5% outside the benchmark ranges needs to be reported to the Investment Committee within 48 hours of the breach.