The Mackay Foundation

INVESTMENT POLICY STATEMENT

Prepared on 11th March 2008

Revision: 9th September 2008

Revision 2: 15th November 2010

Revision 3: 29th May 2013

Overview

The Mackay Foundation (MFT) is trustee of all funds established to receive money and assets donated from the public. The Board of the MFT are ultimately responsible for the prudent management of all MF funds. The Board has appointed an Investment Committee of three directors to assist it to fulfil its fiduciary obligations under the MFT umbrella.

The MFT aims to manage all funds prudently, in accordance with sound investment principles, so as to optimise the return generated on funds invested, while maintaining an appropriate investment risk profile.

In addition to meeting the fiduciary responsibilities, this investment policy:

- Demonstrates to individual and corporate donors and benefactors that the MFT is a competent steward of money it receives.
- Defines the criteria against which the committee can evaluate investment performance relative to accepted market indices.
- Provides a roadmap for new Board members and/or committee members to ensure continuity of effective management within the MFT.

The money and assets donated by the public are used in two distinct ways:

Administration Account – this account receives all donations**,** grants and income. All running costs and administration fees are paid from this account to ensure the efficient operation of MFT. Generally funds are used within 12 months.

All donations are allocated as appropriate to either the gift account or open account and invested.

Endowment Accounts –The MFT has one endowment account, the Gift Account. Donations are invested to preserve capital for the future and income earned from the investment of this capital is allocated to selected charities.

The Gift Account receives both tax deductible donations and donations where donors are not seeking a tax deduction.

Accordingly the investment policy will address two distinctly different investment time frames: short term for “administration” funds and long term for “endowment” funds.

Objectives

An appropriate investment policy will assist with the achievement of several key objectives, which include:

- Return
- Risk
- Liquidity, or access to capital

Procedures

<u>Administration Funds</u>

a) Satisfactory return

Given the short term investment time horizon of capital allocated for "flow through" and "administration", the investment objective should be to achieve a satisfactory return commensurate with the 90 day Bank Bill Index.

b) Acceptable risk profile

To limit investment risk, funds should only be allocated toAA Credit rating securities or better.

<u>Endowment funds</u>

a) Return

With a long term investment time horizon, the objective for "endowment" funds should be to achieve a return above inflation so that the capital will grow in "real" terms.

It is proposed that the target "long term" return should be inflation plus 4% or better.

b) Risk

It is noted, that to increase potential return, an investment portfolio must assume a higher level of volatility (fluctuations in capital) in the short term.

It is also noted that, the "risk" associated with lower volatility gives rise to a reduced probability of capital loss in the short term, but, equally, a greater probability of capital loss in the long term.

Hence, it is acceptable for the portfolio to achieve negative returns in line with market indices of the appropriate asset class.

c) Liquidity

As funds are to be invested for the long term (perpetuity), there is little need for liquidity.

d) Asset allocation

Research confirms the inability of forecasts to predict how investment markets will perform in the future.

Furthermore, the major determinant of long term performance for an investment portfolio is not the selection of investments, nor the timing of acquisition of investments, but rather the mix of asset classes, known as asset allocation. This contributes to over 94% of performance.

Although our target allocation is 100% Australian shares there is a variance placed on other asset classes for the investment committee to have the ability to reduce the growth assets in extraordinary circumstances.

The table below details the target, long term asset allocation for endowment funds:

Asset Sector	Target allocation %	Variance %
Cash	0	+/-15
Fixed interest	0	+/-15
Australian shares	100	+/-50
International shares	0	+50
Property	0	+15
Other	0	+10

e) Markets Work

Prices for financial assets find equilibrium quickly and it is difficult to consistently predict and profit from any perceived inefficiencies in these prices. Importantly, the capital market rate of return is available to every investor at a reasonable price and the rate of return generated over the long term has proved to be attractive.

f) Diversification is Essential

Concentrated, non-systematic risk is unrewarded in investment portfolios over time. Investment portfolios should be diversified throughout the selected asset class.

g) Costs Matter

Investment portfolios should be constructed and maintained with costs in mind. Costs may be implicit or explicit in an investment portfolio.

In practice these core beliefs mean the implementation of our investment philosophy is primarily delivered through low cost, comprehensively diversified, structured investment trusts in our chosen asset classes.

Investment strategy guidelines

Why invest 100% in Australian shares?

- Research shows that equities outperform debt securities over the long term. Refer to Graph 1 in Appendices
- Historically Australian shares pay a dividend yield well above that available from mainstream global equity markets.
- Over a 100 year time frame world equity markets return to equilibrium negating the need for country diversification.
- As an Australian community foundation we choose to support Australian businesses by retaining shareholdings and profits within Australia. This also eliminates currency risk.
- Many Australian companies today have overseas interests and as such derive a percentage of their profits offshore providing exposure to the international share market.
- Given that the endowment account is to be invested for perpetuity and primarily as a source of income, historical research has shown that Australian shares provide higher returns of income growth than other asset classes. Graph 2 in the Appendices shows a comparison between the income of a term deposit and the S&P/ASX300 Index from 1993 to 2010.
- Many international taxation regimes tax both the company and dividend recipient. In effect a double taxation on international shares. Whilst Australian taxation laws have addressed this anomaly via the dividend imputation system whereby dividend recipients receive a credit for any company taxes paid on profits. Therefore Australian shares provide a higher level after tax dividends.

Constraints

In concert with the target asset allocation, the following guidelines are recommended to reduce risk:

- No speculative investments or use of fund managers who use stock and market selection as there is no academic evidence that shows that this adds value in the long term
- Recommended fund managers must have a current prudence report available;
- No borrowing to amplify capital growth

Investment management

Donations will be retained in the administration account until the investment committee have agreed to the investment of these monies into the endowment account.

The investment committee can elect to appoint an external investment manager to assist with asset allocation, investment selection and ongoing reporting.

Review of investment performance

The performance of capital allocated to “endowment” shall be reviewed at least annually.

The performance of endowment capital will be measured against the appropriate asset class indices.

In the event of an external manager being appointed, their written report will be submitted to the investment committee on a six monthly basis.

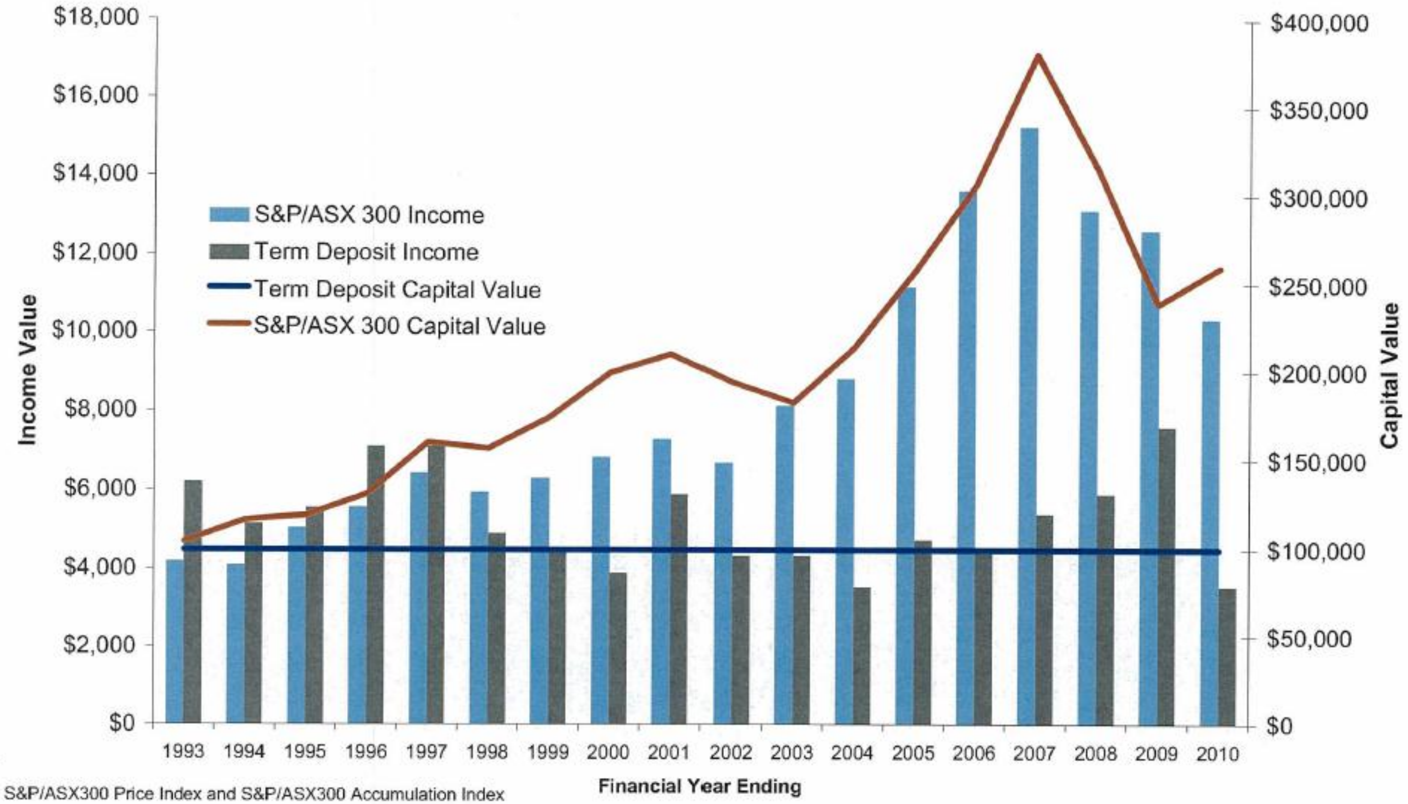
Appendices

Growth of Wealth

Monthly: 07/1990 - 12/2012; Default Currency: AUD

Fixed Income vs Growing Income

$100k invested at 30 June 1992



Source

Shares = S&P/ASX300 Price Index and S&P/ASX300 Accumulation Index

Term Deposit = Reserve Bank of Australia 12 Month Term Deposit Rate (> $10,000)

Sources and Descriptions of Data

All Dimensional portfolio returns are net of all fees unless otherwise indicated.
All Dimensional trust returns are net of administrative fees only unless otherwise indicated.
Prior to April 2002, certain international equity portfolios charged a reimbursement fee to the purchasers of shares of those portfolios

UBSA Composite Bond Index 0-5 Years	04, 1990- 03, 2013	SOURCE: W M MERCER PTY LTD Country code AA Currency: AUD UBS data reproduced with the permission of UBS Warburg Australia Ltd.
S&P/ASX 100 Accumulation Index	01, 1980- 03, 2013	4/00 - Present > S&P/ASX 100 Accumulation Index 6/92 - 3/00 > S&P/ASX 100 Accumulation Index (backfilled by S&P) 1/91 - 5/92 > ASX 100 Accumulation Index (Pre-Restructure) 1/80 - 12/90 > ASX 50 Leaders Index (Pre-Restructure) Country Code AA Currency: AUD S&P/ASX data reproduced with the permission of S&P Index Services Australia.

Standardized Performance Data and Disclosures

Dimensional

As of March, 31, 2013

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