

Magpies and Killer Whales Water Polo Endowment Fund: Charter and Governance Structure

1. Introduction

- The Magpies and Killer Whales Water Polo Endowment Fund (WEF) invests the funds raised from UNSW Wests Water Polo Club members and through donations with the expectation the investment portfolio will generate an income stream into perpetuity to fund the development of the Club's (UNSW Wests Water Polo) water polo activities.
- An Investment Advisory Committee (IAC) including industry practitioners with investment expertise provides advice and endorsement of investment recommendations and investment policy.
- The assets of the WEF are held by a third-party custodian¹ to ensure the appropriate segregation of duties and managed by a professional investment manager with the aim of achieving the return objective stated in the Investment Policy Statement (IPS).
- WEF operates under its own governance arrangements, policies and procedures, but remains subject to the Club's governance arrangements, policies and procedures, unless expressly exempted.
- This *Charter and Governance Structure* specifies the purpose, objectives and governance structures under which the WEF is to be managed and overseen. It is approved by the Club Representative Committee, which ratifies the arrangements set out within. This document, and all activities taken under it, remain subject to oversight and review by the club.

2. Purpose

The sole purpose of the WEF is to provide an *annual growing income stream into perpetuity* to fund the development of the club's water polo activities. Consequently, IAC will focus on growing the "principal" or "corpus" to support higher distributions into the future while balancing the need for income today.

The WEF can be used for the following purposes:

- (i) Support the development of water polo at all levels within the club including marquee players and imports, coaching, grass roots junior development and junior international travel for training camps;
- (ii) Provide scholarships for key players, and to support their educational development.
- (iii) Provide funding to solve longer term pool access.

It is hoped that the WEF will create a virtuous feedback loop, whereby some of the WEF recipients become successful alumnus who are more inclined to give back to the WEF and the club overtime. Overall, the WEF provides an opportunity for deeper engagement will all members (past, present and future) of the club.

¹ One Investment Group is the third-party custodian for the Holon Photon Fund.

3. Objectives

In pursuing these purposes, all parties involved in management and oversight of the WEF are expected to work towards the following objectives:

- (A) *Investment objective*: Maximise the long-term trade-off between the expected value of funds invested, against the risk of sustained reduction in the real value of those funds. The return objective is set at 10.0% per annum.

Measured by: The 7-year change in the value of funds invested, adjusted for fund inflows.

- (B) *Developmental objectives*:

- Build the quantity and quality of engagement between the WEF, its contributing members, and the water polo community at large.
- Attract additional donations.

Measured by: Number of external engagements, and any related feedback from external parties, and amount and number of new donations.

- (C) *First milestone*: Build the assets of the WEF to \$500k within the first 4 years (30 June 2027) and enable income to be distributed at the rate of 3% of fund assets.

Assumption: Based on an initial contribution from Club alumni of \$90,000 and approximately 100 people contributing \$5 per week for the first year and scaling to 200 people by year 5 years plus some additional fund raising (approximately \$25,000 pa), the assets of the WEF are likely to exceed \$500k by 30 June 2027.

During FY2028 approximately \$20,000 in income is expected to be distributed to the Club. Thereafter, the WEF will continue to distribute 3% of assets into perpetuity. By 30 June 2031 the distribution is forecast to exceed \$30,000 per annum.

- (D) *Second milestone*: Build the assets of the WEF to \$1.25m by 30 June 2032

Assumption: 200 people contributing \$5 per week for another 5 years plus some additional fund raising (approximately \$25,000 pa indexed), the assets of the WEF are likely to exceed \$1.25m by 30 June 2032. At this point the distribution rate can be lifted to a point where the real purchasing power of the future income stream can be maintained while still growing to meet the Club's future needs. For example, if the distribution rate was lifted to 6% of assets, the Club would receive \$75,000 per annum with the future income stream growing at a rate of 4% per annum. This would maintain real purchasing power of current dollars (assuming CPI of 3%) while growing the income stream to cater for future growth in the club's activities.

4. WEF Management Groups and Governing Rules

The *Fund Convenor* and the *IAC* are the two groups involved in the management of the WEF. **Table 1** sets out the rules governing each group, including: composition, appointment and tenure, responsibilities, authorities, and accountability.

The following aspects are in addition to the governing rules appearing in Table 1:

- (i) *Expected conduct* – All groups and individuals within those groups are expected to act in accordance with the Club's Code of Conduct and the interests of the Club, including ensuring that the Club's reputation is at all times protected, if not enhanced. They are also expected to apply appropriate analytical skills, objective, sound judgment and diligence in managing or overseeing the WEF and its investments.

- (ii) *Consistency with Club policy and procedures* – Any operating rules specified by an WEF management group must be consistent with the Club's policies and procedures.
- (iii) *Fund Convenor (Heath Behncke)* – Holds the delegation to make investments on behalf of the WEF once endorsed by the IAC. The Fund Convenor is responsible for ensuring that the assets are managed in accordance with the policy of the WEF and the Club; and has, as Chair of the IAC, a veto over recommended investments that contravene policy.

Table 1: Rules Governing the Fund Convenor and Investment Advisory Committee

Attribute	Fund Convenor	Investment Advisory Committee
Composition	<ul style="list-style-type: none"> The Fund Convenor (Heath Behncke) is Chair of the IAC, and has veto over recommended investments that contravene policy. 	<ul style="list-style-type: none"> Comprising: <ul style="list-style-type: none"> Fund Convenor (<i>Chair, deciding vote and right of veto</i>) President Treasurer Club Member <i>Two to three externals with investment expertise (voting):</i> <ul style="list-style-type: none"> Each external member may nominate an alternate
Appointment & Tenure	<ul style="list-style-type: none"> Appointed and removed by IAC No defined tenure 	<p><i>With respect to external members:</i></p> <ul style="list-style-type: none"> Nominated by Fund Convenor Approved and appointed by Club Representative Committee Nominations to occur after consultation with the Fund Convenor, existing IAC members, and the Club Representative Committee Alternates must be approved by the Club Representative Committee, in consultation with the Fund Convenor Tenure of three years; eligible for reappointment
Main Responsibilities	<ul style="list-style-type: none"> Delegated responsibility for the investments of the WEF, and ensuring that the WEF is managed in accordance with policy Implementation of approved investment decisions Propose the <i>Charter and Governance Structure</i> Propose investment policy, to be detailed in the Investment Policy Statement (IPS) Interact with Club internal and external parties Pre-approve any public communication 	<ul style="list-style-type: none"> Consider investment recommendations proposed by the WEF Convenor and provide constructive comments and advice Assist with monitoring the portfolio against objectives and investment policy Consider investment policy as proposed by the Fund Convenor Endorse the WEF Annual Report Attend IAC meetings where possible, either in person, by conference call, or through an appointed alternate Assist with external engagement and promotion of the WEF Guard, if not enhance, the Club's reputation
Authorities and delegations	<ul style="list-style-type: none"> Undertake investments as endorsed by the IAC, in accordance with investment delegations Make expenditures from the WEF operational budget, in accordance with financial delegations assigned by the IAC 	<ul style="list-style-type: none"> Endorse the Investment Policy Statement as proposed by the Fund Convenor

Accountability	<ul style="list-style-type: none">• Fund Convenor is accountable to the IAC	<ul style="list-style-type: none">• External members are accountable to the IAC with respect to diligently performing their role as an IAC member as specified in the <i>Charter and Governance Structure</i>
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5. Oversight of WEF Management

Listed below are the parties involved in overseeing the management of the WEF and the function that each fulfils. This list is supplementary to the governing rules outlined in Section 4.

(i) **Club Representative Committee**

- approve the *Charter and Governance Structure*
- approve investment delegations
- approve and invite IAC members
- approve the IPS and the Annual Report, following endorsement by the IAC
- nominate IAC members for appointment by the Club Committee
- set the operational budget for the WEF and assign delegations to the Fund Convenor to make expenditures against that budget

(ii) **Club President**

- provide advice on the *Charter and Governance Structure*
- monitor the activities of the WEF for consistency with the *Charter and Governance Structure*
- approve communications for public release

Table 2 in the Appendix provides a summary matrix of the main functions and roles, combining both management groups and those providing oversight.

6. Investment Governance and Procedures

Figure 1 sets out the WEF governance structure as it pertains to the management of WEF investments. It shows the main units involved, their primary functions, the hard reporting lines (solid arrows) and the notable working relationships (dashed arrows). Figure 1 should be read in conjunction with Section 4 and Section 5.

Procedure for Making Changes to the WEF Portfolio

Changes to the WEF portfolio may be made only under two conditions:

- (a) After endorsement of an investment recommendation by the IAC, providing that the recommendation does not contravene policy;
- (b) A portfolio change becomes necessary in order for the WEF to comply with policy.

The WEF investment governance structure envisages the following procedure:

- The Fund Convenor proposes investment manager recommendations to be considered by the IAC.
- The IAC decides whether to endorse the investment manager recommendation or otherwise reject the recommendation or request additional work.
- Investment manager changes are implemented via the Fund Convenor.

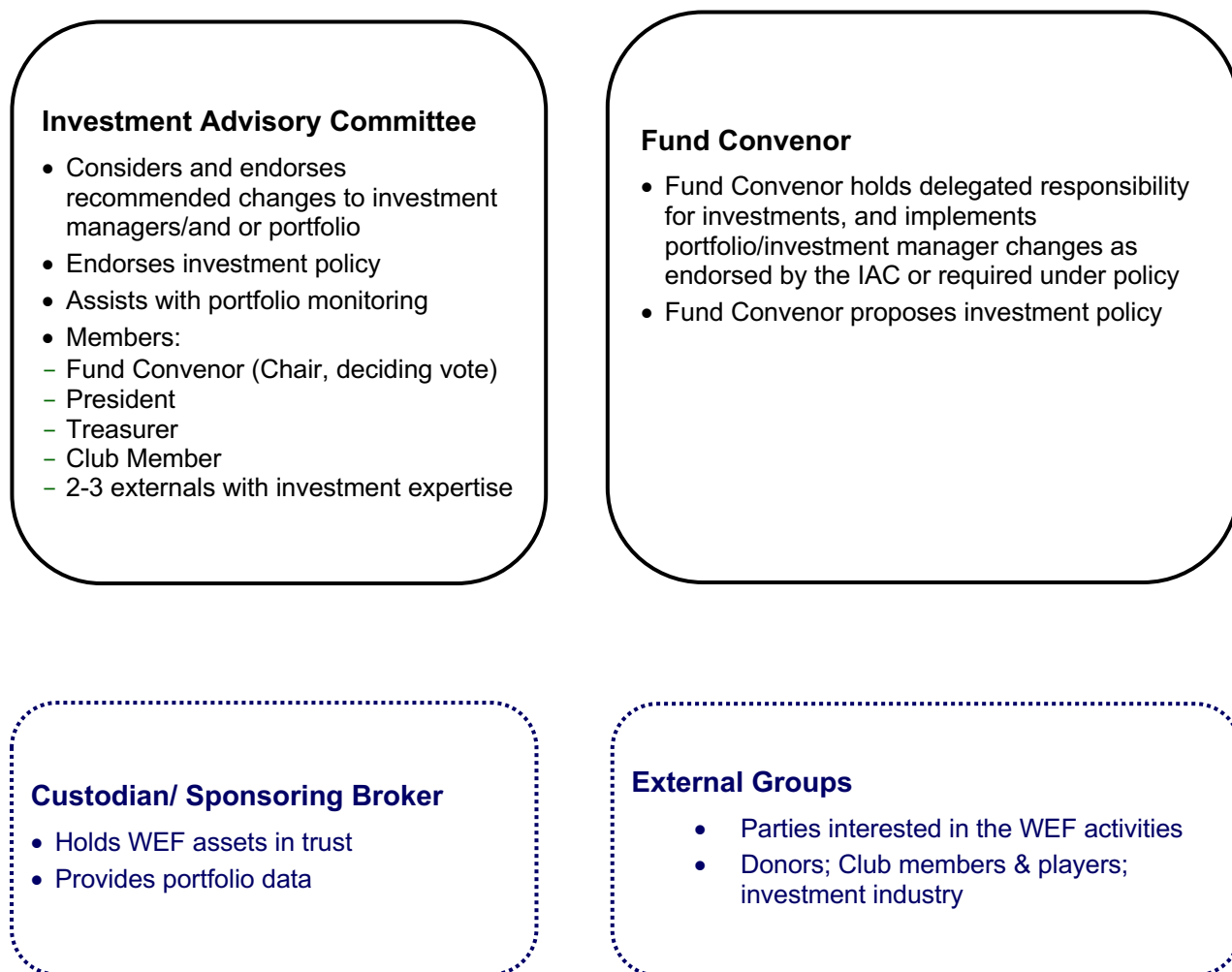
Review and Oversight of Investments

- The Fund Convenor holds responsibility for the investments of the WEF, and the delegation authority to make investments. They have the right of veto over any approved investment recommendations that are inconsistent with policy, and responsibility to make changes to the portfolio if it comes into breach of policy.
- The IAC assists with monitoring the portfolio for consistency with investment policy.
- The WEF investments are monitored by the Fund Convenor, the Club President and Club Member to ensure consistency with the *Charter and Governance Structure* and Club policy.

Other

- Investments are held in trust by either a custodian or a sponsoring broker. Interactive Brokers LLC is going to be the custodian.
- The Fund Convenor is responsible for reporting and communicating the investment and other activities of the WEF to external parties.

Figure 1: WEF Investment Governance Structure



7. Risk

This section identifies the relevant risks to be taken into account in managing the WEF. For each risk, an outline is provided of its nature, significance, the tolerance for accepting the risk, and mitigating strategies that the WEF is expected to pursue.

(i) Investment risk

- *Nature* – Failure to generate sufficient returns to maintain the real value of funds invested over the long run. This may result from suffering a permanent loss in value from investments that is uncompensated by returns generated elsewhere in the portfolio.
- *Significance* – Medium. Whereas generating sufficient returns is necessary to support the real value of distributions over the long term, the consequence of not doing so would be that the amount available to support philanthropic activities is diminished rather than nullified.
- *Tolerance* – High. The acceptance of investment risk is required to generate the possibility of higher returns. A long-term horizon affords the opportunity to recover from transitory losses.
- *Mitigation* – Risk monitoring and controls to be incorporated into investment policy and the investment process.

(ii) Reputational risk

- *Nature* – WEF activities give rise to an adverse public opinion about the Club.
- *Significance* – High. It is paramount that Club continues to be viewed as an organisation of the highest integrity.
- *Tolerance* – Low.
- *Mitigation* – IAC should consider reputational risk in endorsing investment recommendations.

(iii) Personnel risk

- *Nature* – Investment performance, or the ability to successfully undertake operations, suffers due to the loss of key persons on which the WEF is relying.
- *Significance* – Medium. This risk manifests largely as a form of investment risk, although there may be some implications for reputation at the margin.
- *Tolerance* – High. This risk should be managed, rather than avoided.
- *Mitigation* – Reliance on single individuals should be limited where possible. Strategies include implementing a succession plan for key roles over time.

(iv) Liquidity risk

- *Nature* – The fund has insufficient liquidity at hand to meet promised distributions.
- *Significance* – Low. It is probable that the cash flow from investment income will cover the majority if not all of the distributions. If this does not prove to be the case, it is likely that the portfolio would contain more than ample listed assets that may be liquidated at short notice. The WEF benefits from permanent capital and is not subject to redemptions.
- *Tolerance* – High. In the very unlikely event that the WEF cannot find sufficient liquidity to immediately satisfy distributions, an appeal could be made to Club to cover the shortfall on a temporary basis.
- *Mitigation* – The liquidity will be monitored, and plan for sufficient liquid assets to be available to meet distributions when they fall due.

(v) Counterparty risk

- *Nature* – Given that the WEF assets will be held in a trust account, counterparty risk relates to broker failure during the course of trade execution, or breach of duty.
- *Significance* – Low. Even if broker failure occurs, this may not be during trades, and is likely to involve a limited slice of the portfolio. There would also be various avenues for recourse.
- *Tolerance* – High. Any losses through counterparty risk would be an outlier with probably limited impact. This risk is not a major concern given the nature of the WEFs operations.
- *Mitigation* – Agents used by the WEF should be reputable and well-capitalised. Derivatives that are not exchange-traded should not be included on the list of authorised investments.

8. Distribution Policy

(i) Distribution Amount

The distributable amount will be determined based on balancing the current and future needs of the Club. In the first four years it is envisaged that no distributions will occur to allow the maximum growth in principal. The distribution rate will be increased to 3% in year 5, and potentially 6% in year 10, but never to a point where real purchasing power cannot be maintained. Under no circumstances will the capital pool ever be reduced in any material way as a result of a distribution.

(ii) Use of Distributions

The use of distributions is determined by the Club Committee. Distributions must be used to fund the development of the Club's water polo activities.

9. Reporting

The reports listed below are to be produced and distributed as outlined. Any public communication must first be approved by the Fund Convenor and the Club President.

(i) Annual Report

- *Frequency* – Yearly, following the end of the calendar year
- *Author* – Fund Convenor with assistance of Club Member
- *Approval* – Club Representative Committee subject to endorsement by the IAC
- *External distribution*
 - Club Representative Committee
 - Club members
 - WEF donors
 - Other persons requesting to be on the distribution list, and approved by both the Fund Convenor and the Club Member
- *Required content*
 - Fund Convenor report
 - Review of performance against objectives
 - Portfolio overview at year-end
 - Full set of audited annual accounts
 - List of key activities undertaken during the year
 - Personnel involved and roles, including members and IAC members

(ii) Bi-Annual Review

- *Frequency* – Bi-annual, after end of each half year
- *Author* – Fund Convenor and IAC

- *Approval* – Fund Convenor and IAC
- *External distribution*
 - Club Committee
 - Club Members
 - WEF donors
 - Other persons requesting to be on the distribution list, and approved by both the Fund Convenor and the Club Member
- *Required content*
 - Review of performance for the half-year
 - Portfolio overview at half-year end
 - Portfolio changes made during the half year

(iii) Newsletter

- *Frequency* – Irregular, as required and appropriate
- *Author* – Fund Convenor and Club Member
- *Approval* – Fund Convenor and IAC
- *External distribution*
 - Club Committee
 - Club Members
 - WEF donors
 - Other persons requesting to be on the distribution list, and approved by both the Fund Convenor and the Club Member
- *Required content* – Free-form: whatever may be of interest to readers.

10. Investment Advisory Committee Meeting Procedures

The composition, governing rules and roles of the IAC were detailed in Section 4 and Section 5. The operating procedures with respect to the conduct of IAC meetings are set out below.

- (i) The IAC will meet as needed to consider matters requiring its approval or advice, subject to a minimum of two meetings per financial year.
- (ii) The Fund Convenor will act as Chair, and is responsible for calling and arranging meetings, including deciding if an unscheduled meeting is required. The Fund Convenor may delegate these tasks to the Club Member, including Chairing of meetings in instances where the Fund Convenor is unable to attend.
- (iii) IAC members will be provided with an agenda and any required readings (such as investment reports) in ample time to allow them to give them due consideration prior to the meeting, subject to a minimum lead time of four days.
- (iv) A quorum shall consist of at least 5 IAC members, including at least two external members or their alternates.
- (v) If the IAC is unable to reach a clear consensus over a matter it is required to consider, the decision will be put to a vote. In this situation, a motion will be carried by a simple majority of IAC members holding full voting rights, which includes any external members or their alternates. In the event of a tied vote, the Chair has the deciding vote.
- (vi) IAC members who cannot attend either in person or via their alternate may make their preferences known to the IAC via email to the Chair. The Chair must advise the meeting of these preferences and take them into consideration in the event of a tied vote.

- (vii) Nominated and approved alternates attending in the stead of an external IAC member carry the full and complete delegation of the voting rights of that member.
- (viii) The Fund Convenor has the right of veto over decisions on the grounds that the investment is inconsistent with the *Charter and Governance Structure*, the *WEF Investment Policy Statement*, or the policies of the Club. Otherwise the Fund Convenor must accept and implement the decision.
- (ix) The Chair will arrange secretarial support for the IAC and ensure that minutes are maintained and circulated.
- (x) At the beginning of each meeting, the Chair will ask IAC members to declare any material personal interests that would give rise to a conflict of interest as an IAC member, or with regard to the discussion or voting related to any matters on the agenda. In the event of a conflict of interest, the member must exclude themselves from any involvement in the related discussions and voting, which will be appropriately recorded in the minutes.
- (xi) It is understood that the Fund Convenor and Chair is naturally conflicted due to his investment firm providing professional investment services to the Club. However, the Governance structure employed and the Investment Policy Statement clearly lays out the objectives for the WEF and the benchmark for services rendered to be judged.

11. Review and Revisions

The Fund Convenor is responsible for ensuring that the *Charter and Governance Structure* is reviewed at least once every three years. Any revisions are to be proposed by the Fund Convenor in consultation with the Club President. Advice should be taken from appropriate Club Members within Administration before the revisions are presented to the Club Committed for approval and ratification.

12. Investment Fees and other costs in relation to Investment Management

The fee for managing the WEF is 1.35% of assets plus a performance fee of 15% of the outperformance over the global equity benchmark. Brokerage and other transactions fees will be incurred but are likely to be below 0.30% per annum. Instead of rebating fees back to the club, Holon Global Investments (the investment manager) will sponsor UNSW Wests Waterpolo to neutralise the impact of fees.

13. Administration of member contributions through the Australian Sports Foundation

All contributions to the fund will pass through the Australian Sports Foundation (ASF) which is the only organisation in Australia that has Deductible Gift Recipient Status for sports. By partnering with the ASF for our fundraising, all donations of \$2 or more are tax-deductible. This is a huge benefit for individual and corporate donors and will obviously help us in our fundraising efforts.

Members will sign up through a portal on the Australian Sports Foundation's website to enable regular payments via credit card. For payments via Visa and MasterCard the charge is 1%, while payments via American Express is 2%. Members have the option to cover the costs of the charge.

For the administration of the program and gaining access to the tax deductibility, the ASF charge a 5.0% administration fee. While we could potentially administer ourselves to save costs, we would lose the benefits of tax deductibility for Members.

Prepared by: Heath Behncke, WEF Fund Convenor, 18th August, 2020

APPENDIX

Table 2: Matrix of Key Functions and Roles for the Magpies and Killer Whales Water Polo Endowment Fund

	Oversight		Management		Funding
	Club Representative Committee	Club President	Fund Convenor	Investment Advisory Committee	Members/Donors
Governing Policy					
Charter & Governance	Approves	Advises	Proposes	Informed	Informed
Investment Delegations	Assigns		Holder		
Investment Policy		Approves	Proposes	Endorses	Informed
Fund Convenor Appointment	Responsible				
IAC External Members	Approves and Invites	Advises	Proposes	Advises	Informed
Investments					
Portfolio Structure		Monitors	Responsible	Monitors	Informed
Changes to Portfolio			Responsible	Endorses	Informed
Investment Process			Approves	Advises	Informed
Distributions					
Amount	Approves	Approves	Proposes	Informed	Informed
Use	Responsible	Advises	Advises	Informed	Informed