



INDOOROOPIILLY
GOLF CLUB

IGC Investment Policy

Version	Board Approval Date	Version Change Description
1.0	17/12/2019	New Policy presented by IAC Committee
2.0	26/5/2020	Align terminology with accepted norms references to “Fixed Interest” changed to “Debt Securities”; include “Alternative Investments” (definition and asset allocation; include “Responsible Investments”

SECTION 1

BACKGROUND

Indooroopilly Golf Club (IGC) negotiated a Lease of part of its land at Meiers Road in accord with Brisbane City Council approval of a development application for retirement village use. IGC received an initial payment from the tenant in September 2019 which, after expenditure from such payments approved by ordinary resolution at the general meeting of IGC on 30 November 2017, along with future payments from the tenant, are to be invested in the name of the Club (**the Relevant Funds**).

PURPOSE OF THE RELEVANT FUNDS

The purpose of the Relevant Funds is two-fold:

- i. to meet such payments approved by ordinary resolution at the general meeting of IGC on 30 November 2017 ie up to \$8 Million on defined expenditure and provide liquidity for appropriations permitted under Clause 25 of the IGC Constitution.
- ii. to achieve long term stability for the security of IGC’s capital requirements rather than seeking to outperform a market benchmark

PURPOSE OF THE INVESTMENT POLICY

The Investment Policy (Policy) is a strategic policy document.

It is intended that the Policy be a guiding document to facilitate all aspects of the ongoing prudent and efficient management of the Relevant Funds. It describes the investment framework, detailing objectives, strategies and guidelines in detail, together with the procedures for monitoring and reviewing the policy and investment managers.

The Policy will be reviewed and changed, as appropriate, to reflect changing capital markets, IGC characteristics, government regulations and Board requirements.

The Policy:

- sets an investment structure for managing investments, which includes various asset classes
- sets allowable investment management approaches, asset allocations, and acceptable ranges that, in total, are expected to provide a sufficient level of overall diversification and total investment return over the long term
- provides guidelines that control the level of overall risk and liquidity so that investments are managed in accordance with stated objectives
- encourages effective communications between the Board, IAC and the investment managers

- establishes formalised criteria to monitor, evaluate, and compare the performance results achieved by the investment managers on a regular basis
- complies with all legislative, fiduciary, prudential, and due diligence requirements that are expected/required of IGC

GOVERNANCE

The Board recognises that the development of investment objectives and the implementation of appropriate strategies for the investment of proceeds from the tenant is one of its key responsibilities.

Due to the particular demands required to efficiently formulate, implement and manage investment policy, the Board has formed an Investment Advisory Committee (IAC) to assist the Board with the investment process.

The Terms of Reference of the IAC are contained within the IGC Governance Charter.

RESPONSIBILITIES

The **Board** is responsible for:

- approving this Investment Policy and modifications thereto;
- authorising the addition and removal of investment managers as recommended by the IAC;
- approval of any other investment changes;
- monitoring the performance of the Relevant Funds, investment manager funds and any other product holdings

Any departures from this policy must be approved in advance by the Board.

The **IAC** is responsible for:

- reviewing and maintaining this Policy (in conjunction with the Board)
- developing and maintaining an appropriate investment structure consistent with this Policy
- monitoring performance of investments against Board approved benchmarks and policies and
- supporting the Board in monitoring compliance with this Policy
- recommending investments, including confirming that the recommendations are in accordance with this Investment Policy
- ongoing monitoring of performance versus objectives of the portfolio and investment managers
- collating all relevant statements from investment managers (risk manager statements, distribution statements, tax statements, IFSA statements, investment reports, etc.)
- compliance with IAC Charter
- reporting performance quarterly to the Board, including a statement of compliance with the Policy
- reporting to the Board the annual income available for appropriation, calculated in accordance with Clause 25 of the Constitution.
- reporting all transactions and minutes of meetings to the next Board meeting
- providing any agreed additional reporting to (and meeting with) the Board

In compliance with the Policy the IAC and Board, in their fiduciary capacity will:

- exercise the care, skill and diligence that an ordinary prudent person would exercise when dealing with another person's property
- act in the best interest of key IGC stakeholders (being the members of IGC).

FUND CHARACTERISTICS

Structure

The structure of the Fund consists of two components (and characteristics) as follows:

Liquidity component

- to meet purpose (i) - short term, liquidity focus
- capital preservation – not expected to experience a negative annual return

Capital component

- to meet purpose (ii)
- longer term
- subject to (equity) market volatility
- capital enhancement over the long term – implying relatively high volatility of (including negative) returns over a market cycle

Taxation status

As a not-for profit (NFP) entity established for the encouragement of a game or sport, IGC is able to self-assess as tax exempt pursuant to Section 50-45 of the Income Tax Assessment Act. In June, 2019, IGC obtained a private ruling from the Australian Taxation Office (ATO) confirmed its continuing tax exempt status following the commencement of the long term lease transaction with Aura.

Any franking credits or “imputed tax credits” attached to franked dividends on Australia equity investments are generally not of benefit to NFPs unless they are specifically registered and endorsed by the ATO as a charity or Deductible Gift Recipient. IGC does not qualify and thus cannot apply for refund or franking credits.

SECTION 2

INVESTMENT GUIDELINES

Investments

The Board has reviewed the long term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behaviour. The following broad asset classes or strategies (covering both domestic and international markets) were selected:

- unlisted and listed equities/shares
- unlisted and listed property
- unlisted and listed infrastructure
- debt securities
- cash and cash equivalents
- alternative investments

A brief description of the above investments can be found in the Appendix.

Direct Investments

Direct investments by the Board may consist of cash and term deposits.

Indirect Investments

The Board has determined that, other than assets invested directly, the Relevant Funds will be invested with unitised investment trusts offered by specialist investment managers as recommended by the IAC. Investment managers will be given the flexibility to invest in securities within the above asset classes, subject to agreed constraints.

Active/ Passive

The Board has a preference for an active approach to security selection however, will consider advice for a passive approach in specific asset classes.

Reinvestment of income distributions

The Board's policy on income distributions varies according to component as follows:

- Liquidity component – receive income distributions for spending in the short term
- Capital component - reinvest income distributions for compounding over the long term

Authorisation of Investments

All transactions with respect to the Fund investments must be undertaken by IGC personnel who are authorised in accordance with the Board as to delegated authorisation levels. The Board is to maintain an authorised signatory list.

Ownership of Investments

All investments are to be made in the name of IGC.

Valuation of Investments

For the purposes of compliance with this policy, all Relevant Fund investments are to be marked to market on a net realisable value basis at the end of each month or such other treatment that is consistent with applicable Accounting Standards.

Liquidity

An appropriate amount of cash for liquidity/working capital purposes shall be retained with one or more of the Australian banks.

Redemption from investment trusts should normally occur within seven working days of the latest valuation date.

Derivatives

The Board does not use derivatives directly for the Fund. Investment managers may use derivatives to take advantage of opportunities to increase return, reduce risk and reduce transaction costs. Investment managers prepare Risk Management Statements which summarise the manager's principles, policies and procedures relating to the use of derivatives. Investment managers must provide Risk Management Statements annually to the Board.

Responsible investment

The Board believes that environmental, social and governance (ESG) factors can have a material impact on the long-term investment performance of investment portfolios and assets in which IGC invests.

Environmental factors include climate change, energy efficiency, water scarcity, and waste treatment practices.

Social factors include human capital, workplace health and safety, industrial, community and stakeholder relations.

Governance factors are very wide ranging, including business ethics, transparency of company management and reporting, executive remuneration and board structure.

Consideration of ESG risks are incorporated in IGC's investment process. IGC requires our investment managers to consider ESG matters as part of their investment processes.

The Board, in consideration of the approval (or otherwise) of proposed investment managers, will consider whether such investment managers are signatories to the United Nations-backed Principles for Responsible Investment Initiative (PRI) which is a network of international investors working together to put into practice agreed Principles for Responsible Investment (Principles).

The Principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision making and ownership practices and so better align their objectives with those of society at large. The UN PRI seeks to encourage a process to engage with investee companies and actively manage investments which have negative social perceptions and outcomes.

Signatories to UN PRI are required (compulsory) to participate in an annual PRI Reporting and Assessment process. This ensures:

- accountability of the PRI and its signatories;
- a standardised transparency tool for signatories' reporting; and
- that signatories receive feedback from which to learn and develop.

The Board requires all investment managers to be signatories to the PRI Initiative

RISK

The concept of risk can mean different things to different people, however risk should relate to the purpose or objective of the portfolio. Risk can be broadly thought of as uncertainty of outcome (or of achieving an objective) where the convention is to focus on downside outcomes and not upside outcomes.

Uncertainty is the lack of complete certainty, i.e. the existence of more than one possibility or alternatively, the true outcome being unknown. *Risk* then can be defined as a state of uncertainty where the possibilities involve a loss, catastrophe or other undesirable outcome.

From the Board's perspective, quantifying *risk* can be thought of as comprising two aspects:

- investment risk capacity, and
- psychological risk tolerance

Investment risk capacity

Investment risk capacity is about the ability to cope with insufficient, long term, real (inflation adjusted), after tax (if applicable) returns. It represents the Board's comfort with risk i.e. the willingness to accept a possibility of a less favourable outcome in the attempt to achieve a more favourable one (known as the "risk/return" tradeoff).

The risk drivers include long term return uncertainty, inflation, long term manager underperformance and credit failure.

Psychological risk tolerance

Psychological risk tolerance on the other hand, is about the Board's ability to sustain less favourable, outcomes in the short term, without derailing the original objectives.

The risk drivers include adverse returns and higher than expected volatility of returns, in the short term. Another may be returns lower than peers or particular segments of the market.

Understanding investment risk capacity is critical for long term portfolios. In this case, an appropriate measure of risk is the **worst-case, real, long-term return**. Long term portfolios should generally be designed to maximise long-term returns for a given level of risk (of low long-term real returns).

How is risk incorporated?

A sense for long term, real uncertainty of returns can be achieved by forecasting the range of return outcomes that may arise over the time frame under review.

Using this approach one can build a range of different scenarios, of which inflation is a key variable in each, and forecast the likely range of return outcomes, and in turn, inflation adjusted returns for each asset class and investment option.

Risk constraints can be quantified in conjunction with a return objective along the lines of, a particular long term return outcome, acknowledging the potential for (for example):

- a negative annual return on average 1 year in 5
- a worst case (i.e. 1 year in 20) negative annual return of -10%

INVESTMENT/RISK OBJECTIVES AND STRATEGY

The investment objective and strategy of each of the Liquidity and Capital components is detailed below.

Liquidity component

The Liquidity component is to be structured to meet purpose (i) of this policy ie to meet such payments approved by ordinary resolution at the general meeting of IGC on 30 November 2017 ie up to \$8 Million on defined expenditure and provide liquidity for appropriations permitted under Clause 25 of the IGC Constitution.

Given the uncertain nature of the requirements, the Board has determined to invest this component prudently with defensive characteristics, to meet a requirement that may arise in the short to medium term.

Investment and risk objectives

Purpose (i)

The investment objective is interest rates commensurate with industry cash rates, term deposits and money market securities.

Given the nature of this component it is expected that the component will not experience a negative annual return.

Investment strategy

Purpose (i)

Allocation (in proportion deemed appropriate by the Board to match spending plans) to:

- cash
- term deposits
- money market securities

offered by one or more Authorised Deposit-taking Institutions (ADI) with at least an A credit rating.

Capital component

The Capital component is to be structured to meet purpose (ii) of this policy.

Purpose (ii) is to achieve long term stability for the security of IGC's capital requirements rather than seeking to outperform a market benchmark.

Investment and risk objectives

The investment objective over rolling 7 year periods, is to meet or exceed cash (as measured by the Bloomberg Ausbond Bank Bill Index) + 3% pa net of investment management fees within the following risk tolerances:

- a negative annual return (not less than -7%) not more than 1 year in 4; and
- given a 1 in 20-year adverse event:
 - an annual return of not less than -15%; and
 - a return not less than 0% pa over rolling 5 year periods

Investment strategy

Consists of up to two components (with allocation ranges):

- core targeted absolute return (70% to 100%)
- discretionary market return (0% to 30%)

The allocation to each component will be determined by the Board after seeking the advice of the IAC.

core targeted absolute return component

This component will consist of investment manager funds that, in combination, provide appropriate asset class diversification while seeking the return target. Each responsible investment manager is to apply a skill based approach to achieve an absolute return (i.e. in excess of cash or CPI) over suitable rolling year periods with an emphasis on capital stability (in comparison to equities). The investment process, asset allocation and investment decisions of the managers are to be framed around this outcome.

Examples include but are not limited to:

- diversified balanced/growth funds with a strategic asset allocation approach
- diversified targeted (real) return funds with a flexible asset allocation approach
- listed infrastructure funds

Risk relating to this component relates to the uncertainty in meeting the (absolute) investment objective. Uncertainty can arise from the investment approach used, the skill of the manager and volatility investment markets.

Performance of each fund is to be assessed against the fund's return target (over the stated minimum investment period).

discretionary market-return component

This component will consist of single sector listed equity or property funds invested either domestically or internationally (ex-Australia).

The allocation to each sector type will be determined by the Board after seeking the advice of the IAC.

Performance of each fund is to be assessed against the fund's market index objective (over the stated minimum investment period).

Acceptable asset allocation ranges

While significant flexibility is provided to the investment managers within the core targeted absolute return component, the Board seeks to manage the overall asset within acceptable ranges for the Capital component as follows:

Asset Class	Acceptable Range (%)
Cash and debt securities	30 - 100
Property securities	0 – 10
Infrastructure securities	0 – 10
Alternative Investments	0 - 10
Australian equities	0 – 25
International equities	0 – 25

Risk management

Risk relating to each of the components may be minimised by using more than one different investment approaches/managers.

International currency exposure

Purpose (ii)

- core targeted absolute return component – at the discretion of the specific investment manager fund with the level of the international currency exposure that is consistent with the objectives of that fund
- discretionary market return component (domestic and international equities, international infrastructure securities and property securities) - 50% with an acceptable range of 20% to 80% as determined by the Board after seeking advice of the IAC. Currency exposure/hedging is to be achieved via international equity investment trusts offered by investment managers

SECTION 3

INVESTMENT MANAGEMENT ARRANGEMENTS

Investment managers

The Board will seek investment managers with financial strength and commitment to excellence in investing. Those that satisfy the criteria must have excellent back office teams and a client service focus. A manager should have a consistent performance record and be able to explain both above- and under-performance. The Board seeks consistent, above average performance over a long period.

Prudent investment includes the concept of diversification. This includes diversification of:

- investment teams
- investment styles
- economies
- geographies
- currencies
- asset classes
- securities

Selection of investment managers

Any selected investment manager must meet the following minimum criteria:

- provide historical quarterly performance numbers calculated on a time-weighted basis, reported net and gross of fees
- provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel
- clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time
- have no outstanding legal judgments or past judgments that may reflect negatively on the firm

Duties and responsibilities of investment managers

The duties and responsibilities of each investment manager retained by the Board should include:

- managing the portfolio under its care, custody, and/or control in accordance with its documented objectives and guidelines
- exercising investment discretion within its objectives and guidelines
- promptly informing the Board in writing regarding all significant and/or material matters and changes pertaining to the investment of the portfolio assets, including, but not limited to:
 - investment strategy
 - portfolio structure
 - tactical approaches
 - ownership
 - organisational structure
 - financial condition
 - professional staff
 - recommendations for guideline changes
 - all legal material and other regulatory agency proceedings affecting the firm
- utilise the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals would use in like activities for investment portfolios with like aims.

Monitoring of Investment Managers

Investment managers will be continually reviewed.

The IAC will recommend termination of any manager when it believes that any or all of a manager's process, performance, staffing and business conditions have become materially inconsistent with the state of those variables at the time of appointment such that they are no longer consistent with the portfolio's investment objectives.

REPORTING

Quarterly

Investment performance, portfolio transactions and balances will be provided quarterly by the investment managers to the IAC for incorporation in a performance and status report. In addition, the IAC will prepare a quarterly written report on the performance of investment markets, the portfolio and underlying investment managers.

Annually

As per quarterly. In addition investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy for achieving those objectives. It is not expected that the Investment Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Investment Policy.

REVIEW OF INVESTMENT POLICY

This Investment Policy, and the objectives, strategy and policies contained herein, is to be reviewed by the IAC and Board annually or as considered appropriate. This Investment Policy is intended to be effective for an indefinite period. However, changes may need to be made and should be considered if:

- there is a major change in the circumstances of the Club
- changes are made to legislation relating to the Club's investments
- new (appropriate) forms of investment arise
- fundamental long term social, political or economic restructuring occurs

APPENDIX

INVESTMENT CONCEPTS AND TERMS

ASSET CLASSES

From an investment point of view there are three basic asset classes – shares (or equities), property and debt.

Shares

Shares represent partial ownership (or equity (as distinct from loan capital)) in a business. Prominent businesses are listed on recognised stock exchanges around the world and have established names, distribution chains and generally, a track record of reasonable profits. Much of the value of a business depends on its brand name which helps it attract business, achieve reasonable profit margins and generate a reasonable return on capital. It is profit which determines how much is available for dividends and what can be ploughed back into the business for future development. Apart from the price paid, the quality of management and the nature of the business are key factors in share investment.

In the long term it is assumed that there will be capital growth, so that investors in shares receive their return from two sources – dividends and capital growth. The source and nature of long term growth of share prices overall is an issue on which there is no universally accepted view. Over the last 100 years, Australian share prices have increased on average about 5 – 6% pa. Similar patterns have been observed in the UK and USA. However there have been historical examples of markets peaking when share prices subsequently fell sharply and regained the previous peak after some considerable time.

Property

With direct property ownership, income is usually generated via a lease. However, most leases have optional renewal terms, rent revisions and other clauses, which provide some flexibility. In the long term, how the various parties to the lease exercise their options (and what happens on expiry) will lead to rents, expenses and capital values being determined by the laws of supply and demand without any specific fixed dollar limit or guarantee.

The large amount of money required for direct property investment has led to a syndication approach via Real Estate Investment Trusts (REIT). There are a number of these listed on the Australian Stock Exchange. They own investment properties such as offices and shopping centres and investors buy units in the trust through the stock market.

Debt

Debt arises when someone lends money to someone else. Debt can take a huge variety of forms, it can be fixed or variable, it can be repayable at a fixed date or at the option of borrower or lender.

The important thing to note about debt is that the borrower normally enjoys the upside if things go well. Except for securities with conversion (to shares) rights, lenders do not usually participate in the borrowers' profits or capital gains. If things go well, lenders get paid what they are due. If borrowers get into financial difficulties, lenders can be left with nothing, even though they rank ahead of the borrowers' equity. There are many factors to consider in relation to debt investment but the key issue is credit quality.

The term debt securities is a more accurate term than the term fixed interest, and covers a wide range of both fixed and variable debt insecurities including:

- bonds or securities (physical and synthetic) issued or guaranteed by any government, local, municipal or statutory authority
- bonds, notes, commercial paper, obligations or securities of or guaranteed by any corporation
- any other bills of exchange, promissory notes and other forms of negotiable instrument

- monies on deposit with, or loans to a bank, any authorised dealer in the short term money market, any public statutory body, or any corporation
- Inflation linked securities

The term money-market securities covers a wide range of the Australian short term interest rate market securities with call or term deposits or securities with maturities, or interest rate resets, limited to a maximum of 365 days, including:

- bank accepted and endorsed bills
- negotiable certificates of deposits
- government (public) securities
- promissory notes
- corporate bonds and notes
- other interest earning instruments

An Authorised deposit-taking institution (ADI) is a financial institution licensed by the Australian Prudential Regulatory Authority (APRA) to carry on banking business, including accepting deposits from the public. This includes:

- banks
- building societies,
- credit unions.

ALTERNATIVE INVESTMENTS

An alternative investment is a financial asset that does not fall into one of the conventional investment categories (ie shares, property, debt, cash). Alternative investments include private equity or venture capital, hedge funds, managed futures, and derivatives contracts.

DERIVATIVES

Derivatives are commonly used by investment managers to enhance and/or protect their portfolio and to vary the portfolio cheaply and quickly instead of buying/selling physical securities.

A derivative is usually defined as a financial instrument whose value is dependent on the price of some other underlying asset. In a way, derivatives are portfolio and money management tools rather than assets.

For some specialised investment strategies, derivatives are the primary tool to establish and change the underlying positions targeted to make a positive return.

TYPES OF INVESTMENT MANAGEMENT

Passive investment management

Passive investment management (also called passive investing) is a financial strategy in which a fund manager makes as few portfolio decisions as possible, in order to minimise transaction costs, including the incidence of capital gains tax. One popular method is to mimic the performance of an externally specified index—called 'index funds'. Passive management is most common on the equity market, where index funds track a stock market index, but it is becoming more common in other investment types, including bonds, commodities and hedge funds. Today, there is a plethora of market indexes in the world, and thousands of different index funds tracking many of them.

Active investment management

Active management (also called active investing) refers to a portfolio management strategy where in the manager makes specific investments with the goal of outperforming an investment benchmark index. Active management is the opposite of passive management, because the manager or passive management fund does not seek to outperform the benchmark index.

INVESTMENT RISKS

Investment returns can be volatile, deviating from the target active return year on year. This is as a result of the inherent risks in the investment. Typically, the greater the volatility, the riskier the investment - that is, the greater the risk that returns will not meet expectations and/or that the investment will realise a capital loss.

Market risk

Market risk is the risk that the value of an investment will decrease due to moves in market factors.

Valuation risk

Valuation risk is the risk that an asset or financial instrument matures or is sold in the market at an amount less than anticipated by the seller

Asset-liability mismatch risk

Asset-liability mismatch risk occurs when the financial terms of the assets and the liabilities move differently as a result of changes in economic conditions.

Interest rate risk

Interest rate risk refers to the volatility of a security's return owing to the fluctuation of interest rates. When interest rates rise, the market value of fixed interest securities decline and vice versa.

Interest rate risk can also arise from changes in the difference between short-term and long-term interest rates. Short-term rates are normally lower than long-term rates. The relationship between short-term and long-term rates can shift quickly and dramatically, which can cause erratic valuation changes in fixed interest securities of different durations.

Interest rate risk is managed by setting limits for the modified duration of the fund compared with the modified duration of the fund's benchmark.

Liquidity risk

Liquidity refers to the ability of an investment to be easily and quickly converted into cash with little or no loss of capital. If the fund is required to sell illiquid investments (e.g. due to a redemption request or an alteration in investment strategy), the fund may need to realise that investment at a sale price lower than what could have been achieved had a longer sale period been allowed. In some circumstances, it may be necessary to suspend redemptions.

Liquidity risk is managed by a process of maintaining the level of liquid investments commensurate with best estimates of the cash flow obligations of the fund.

Counterparty (Credit) Risk

Counterparty risk, also known as credit risk, is the likelihood of suffering loss owing to another party defaulting on its financial obligations.

Credit risk is managed by diversifying across a spread of counterparties (e.g. Corporate securities). In the case of over the counter derivatives, a counterparty to the derivative transaction must have a credit rating of at least 'A-' by Standard and Poor's or equivalent rating from Moody's or Fitch. In the case of direct holdings, individual security limits apply to limit a fund's exposure to that security. These limits are based on the security's credit rating, and whether it is included in the benchmark.

Currency risk

Currency risk is the potential for adverse movements in exchange rates to reduce the Australian dollar value of investments and realized profits held in a foreign currency.

Derivative risk

As derivatives derive their value from the returns obtained on another security, they are subject to the same risks as the security upon which the derivative is valued (derived). Besides the risks of the underpinning investments, derivatives are subject to:

- liquidity risk, this is the likelihood that the derivative may not be able to be quickly bought or sold without causing a significant movement in the price; and
- counterparty risk, this is the likelihood that the counterparty to the derivative contract is unable to meet its payment obligations
- In addition, as the notional exposure of derivative positions may be greater than the capital invested to take that position, the risk of capital loss could be magnified and could be in excess of the funds invested.

Risk management techniques include limits on the level of expected volatility and also limits on the exposure to particular markets and strategies. Investment manager policies on derivatives use is set out in Derivative Risk Statement (DRS).

Leverage

Generally, funds will not be leveraged by direct borrowing or through the use of derivatives. This means that funds will not use assets as security for borrowing. Rather, cash shall always be held to back derivatives exposures. As a result, a fund should not be leveraged through the acquisition or sale of derivatives.

Some funds however may be leveraged by its use of derivatives, with the actual exposure to markets set by the derivative positions which may be greater than the capital value of assets invested to take those positions. This has the potential to magnify investment gains and the likelihood and magnitude of losses.

To manage leverage risk, leverage limits are set and are monitored daily with software packages which are internationally recognised as providing superior daily risk metrics. These systems combine risk management.

Daily risk exposure reports provide exposures that allow the portfolio managers to identify concentrations of risk across all risk buckets (including industry sector allocation, credit rating, maturity concentrations, and derivatives exposure). It also shows the contribution to duration for all securities held within the portfolio.