

Investment of Funds Policy

Policy Number: PCY25/007

Approval date: 15 August 2025

Document type	Policy
Policy number	PCY25/007
Version	1.0
Date of approval	Approved by Council on 15 August 2025
Former reference	N/A
Policy Owner	Chief Financial Officer
Section owner	Corporate Branch, Finance
Date of next review	May 2028
Audience	Library staff and Public
Related documents	Council Charter, Audit and Enterprise Risk Committee Charter, Philanthropy Policy
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Document Tracking

Date of approval	Approved by	Version	Revisions made
15 August 2025	Council	1	Incorporates feedback from Council and the Audit and Enterprise Risk Committee

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1. Introduction

The purpose of this policy is to establish a governance framework for the prudent management of National Library of Australia funds across two broad categories:

1. Gifts, bequests and donations.
2. Funds that are not related to gifts, bequests or donations and are not required for immediate use ('surplus'). This includes government appropriation and own-source revenue excluding gifts, bequests and donations. These funds may be committed but not yet expended, or received, not yet committed but expected to be committed within the financial year or set of financial years for which funding has been provided.

This policy arises from two changes in the Library's environment in recent years:

- a. an increase in gifts, bequests and donations resulting from the Library's Council approved Philanthropy Strategy; and
- b. changes made in 2021 to the *National Library Act 1960*, permitting broader investment powers for gifts bequests and donations than apply under the *Public Governance Performance and Accountability Act 2013*.

The Library has four investment categories. Three of these categories relate to gifts, bequests and donations:

- c. cash provided through gifts, bequests and donations for projects expected to be delivered within 2 years – short-term investment fund (STIF)
- d. cash provided through gifts, bequests and donations for projects expected to be delivered over 2-7 years – mid-term investment fund (MTIF)
- e. cash provided through gifts, bequests and donations for projects which are expected to be delivered over 7 years or more – long-term investment fund (LTIF).

The fourth relates to:

- f. Funds that are not related to gifts, bequests or donations and are not required for immediate use ('surplus').

2. Definitions

Term	Definition
ADIs	<p>Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the Banking Act 1959.</p> <p>ADIs include:</p> <ul style="list-style-type: none">• banks;• building societies; and• credit unions. <p>All ADIs are subject to the same Prudential Standards but the use of the names 'bank', 'building society' and 'credit union' is subject to corporations meeting certain criteria.</p> <p>A Register of ADI's is provided at this link: Register of authorised deposit-taking institutions APRA</p>
Short-term investment funds (STIF)	Cash provided through gifts, bequests and donations for projects which are expected to be delivered within 2 years.

Term	Definition
Mid-term investment funds (MTIF)	Cash provided through gifts, bequests and donations for projects which are expected to be delivered within 2 – 7 years.
Long-term investment funds (LTIF)	Cash provided through gifts, bequests and donations for projects which are expected to be delivered over 7 years or more, or which are not project related.
Surplus funds	Library funds that are not immediately required for financial commitments, excluding cash provided from gifts, bequests and donations.

3. Policy Statement

The Library will invest funds from gifts, bequests and donations, and surplus funds that are not related to gifts, bequests and donations as permitted under relevant legislation and guidance for corporate Commonwealth entities.

4. Legislative Authority

The National Library of Australia will invest funds from gifts, bequests and donations and surplus funds as permitted under relevant legislation and guidance for corporate Commonwealth entities.

This policy is subject to the *National Library Act 1960* (the Library Act), *Public Governance Performance and Accountability Act 2013* (PGPA Act) section 59, Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) section 22A.

In March 2021 the *National Collecting Institutions Legislation Amendment Act 2021* (the NCI Amendment Act) came into effect. The purpose of the NCI Amendment Act was to amend the enabling legislation of 6 National Collecting Institutions (NCIs), including the Library, to provide them with broader investment powers than are currently permitted by the PGPA Act.

The PGPA Act governs how corporate Commonwealth entities may invest funds but does not differentiate between funds received from government and those sourced from other parties, such as donations.

Prior to the NCI Amendment Act, the investment of donations by NCIs was limited to low-risk options. The intention of the amendment was to provide NCIs (within their enabling legislation) powers to develop an investment policy for donated revenue and invest for long-term benefit and improved financial sustainability.

Name of Legislation	Relevant Reference
National Library Act 1960	<p>The <i>National Library Act 1960</i> (Library Act) was amended in 2021, with subsection 22(3) inserted to authorise the Library to invest:</p> <ul style="list-style-type: none"> (a) money accepted as a gift or bequest to the Library (b) money received by the Library from the disposal of property gifted, bequeathed or assigned to the Library (other than by the Commonwealth), or (c) income received from an investment made under subsection 22(3) i.e. interest earned on those funds. <p>Any investment made under subsection 22(3) must occur in compliance with an investment policy in force under section 23.</p> <p>Section 23 of the Library Act states that:</p> <ul style="list-style-type: none"> (1). The Council may formulate a written policy in relation to the following matters: <ul style="list-style-type: none"> a. the investment strategy of the Library

	<ul style="list-style-type: none"> b. benchmarks and standards for assessing the performance of the Library's investments c. risk management for the Library's investments.
PGPA Act 2013	<p>Under section 59 (1) of the PGPA Act a Corporate Commonwealth Entity must not invest relevant money for which the entity is responsible unless:</p> <ul style="list-style-type: none"> (a) the money is not immediately required for the purposes of the entity; and (b) the money is invested: <ul style="list-style-type: none"> i. on deposit with a bank, including a deposit evidenced by a certificate of deposit; or ii. in securities of, or securities guaranteed by, the Commonwealth, a State or a Territory; or iii. in any other form of investment authorised by the Finance Minister in writing; or iv. in any other form of investment prescribed by the rules; or v. for a government business enterprise – in any other form of investment that is consistent with sound commercial practice.

5. Key Roles and Responsibilities

Role	Responsibilities
National Library of Australia Council	<p>The Council, as the accountable authority of the Library, has responsibility for:</p> <ul style="list-style-type: none"> (a) approving the Library's Investment of Funds Policy and any changes or variations to the policy (b) setting the investment parameters and protocols.
Audit and Enterprise Risk Committee	<p>The Audit and Enterprise Risk Committee has oversight of the CFO and COO for the management of investments including reviewing mid-term and long-term investment fund performance and providing advice to the Council. The Committee's role is advisory.</p>
National Library of Australia Foundation	<p>The purpose and responsibility of the Foundation, whose membership will include the Director-General, Council members, and other external invited members, will be to assist the Library in <i>raising</i> philanthropic funds. The Foundation is not a separate legal entity and will not have a role in overseeing <i>investment</i> of such funds.</p>
Asset Manager	<p>External consultant engaged to manage mid-term and long-term investments.</p>

Role	Responsibilities
Chief Financial Officer (CFO)	<p>The CFO has overall responsibility for the management of investments including:</p> <ul style="list-style-type: none"> (a) implementing the investment policy (b) making recommendations to the Library Council on investments and providing sufficient information to the Council to fulfil its responsibilities (c) approving the investment of Library funds subject to requirements outlined in this policy (d) the day-to-day administration of the term deposit and investment portfolio, including requests for quotes and recommendations to the authorising delegate (e) recording all investments in line with accounting standards.
Chief Operating Officer (COO)	<p>The COO has overall oversight of the procurement and management of the asset manager. The procurement will be undertaken in accordance with the Library's Procurement and Contract Management Policy and Procedures.</p>

6. Investment Protocols

The Library is an institution with a long history and long-term goals. While the Library engages in innovation and risk where there is a reasonable expectation of successful outcomes, it also plans for the very long term. For this reason, the Library's investment stance will continue to be reasonably conservative and will aim to maximise long-term over short-term returns.

6.1 Short-term investment funds (gifts, bequests and donations)

Short-term investment funds will be invested subject to the following requirements in line with the Library Act:

- a) investments can only be made on deposit with a bank or Government bonds
- b) short-term investments will be distributed to the Library based on annual project expenditure (as at the end of the previous financial year)
- c) endeavour to invest funds at the most advantageous interest rate available at the time of investment
- d) not less than three (3) quotes will be obtained from approved institutions
- e) when placing investments, consideration will be given to the interest rate offered, the credit rating of the institution, the percentage held by each institution and the term of investment as outlined in the risk and return profile.

The Library has a low risk tolerance in relation to this category of investment funds. Its approach to short-term investment funds is similar to its approach for non-gift, bequest and donation funds that are not required for immediate use (see 6.7).

6.2 Mid-term investment funds (gifts, bequests and donations)

Mid-term investment funds will be invested subject to the following requirements in line with the Library Act:

- a) maximise return on investments over the mid-term, whilst maintaining an acceptable level of risk, without jeopardising the ongoing viability of the MTIF
- b) mid-term investment funds will be distributed to the Library based on annual project expenditure (as at the end of the previous financial year)
- c) investment funds will be allocated to achieve appropriate diversification to reduce risk
- d) fees, brokerage, taxes and implementation costs are considered in assessing MTIF performance

- e) corporate social responsibility, ensuring socially responsible investing behaviours are maintained throughout the execution of the mid-term investment funds policy.

The funds will have a single set of investment objectives and protocols that enable the acceptance of donations from multiple sources.

Management of the MTIF will be implemented through the appointment of one or more external asset managers that have responsibility for the investment of the fund's assets.

The Library has a higher risk tolerance for this category of investment funds. The Library accepts that aiming for higher returns over the medium term means that negative returns may be experienced in some years. The Library will aim to limit the chance of a negative return (in any one year) to once every 6 years (see 7.4 and 7.5).

6.3 Long-term investment funds (gifts, bequests and donations)

Long-term investment funds will be invested subject to the following requirements in line with the Library Act:

- a) preservation of long-term investment capital is the principal objective
- b) Similar to Private Ancillary Funds (PAFs) long-term investment funds will distribute 5% of market value of the fund's net assets (as at the end of the previous financial year) per annum to the Library
- c) maximise return on investments over the long-term, whilst maintaining an acceptable level of risk, without jeopardising the ongoing viability of the LTIF
- d) investment funds will be allocated to achieve appropriate diversification to reduce risk
- e) fees, brokerage, taxes and implementation costs are considered in assessing LTIF performance
- f) corporate social responsibility, ensuring socially responsible investing behaviours are maintained throughout the execution of the long-term investment funds policy.

The funds will have a single set of investment objectives and protocols that enable the acceptance of donations from multiple sources.

Management of the LTIF will be implemented through the appointment of one or more external asset managers that have responsibility for the investment of the fund's assets.

The Library has a significantly higher risk tolerance for this category of investment funds. The Library anticipates that this category of investment funds will relate primarily to bequests where those making bequests expect the Library to maximise the value over the long term.

The Library accepts that aiming for higher returns over the long term means that negative returns may be experienced in some years. The Library will aim to limit the chance of a negative return (in any one year) to once every 6 years (see 7.4 and 7.5).

6.4 Ethical Investment Restrictions

The Library will not invest in companies or indexed funds that derive the majority of their income from the following activities:

- a) smoking and tobacco industries
- b) gambling
- c) arms trading
- d) adult industries and pornography.

This list of excluded activities should not be understood as exclusive: the Library will consider a range of ethical issues in relation to its investments.

6.6 Investment Emissions Reporting

The Library will report periodically on emissions impacts of investments as required under the Commonwealth Climate Disclosure requirements and the Library's Emissions Reductions Plan.

6.7 Surplus funds (excludes gifts, bequests and donations)

Surplus funds will be invested subject to the following requirements in line with the PGPA Act :

- investments can only be made on deposit with a bank or Government bonds
- surplus funds will be assessed by considering calls on cash over the period of the investment period to ensure that sufficient funds are retained as cash on call to meet the day-to-day operations and capital expenditure
- endeavour to invest funds at the most advantageous interest rate available at the time of investment
- not less than three (3) quotes will be obtained from approved institutions
- when placing investments, consideration will be given to the interest rate offered, the credit rating of the institution, the percentage held by each institution and the term of investment as outlined in the risk and return profile.

7. Risk and Return Profile

7.1 Investment Asset Allocation

Investment funds will be allocated to achieve appropriate diversification to reduce risk in line with the approximate asset allocation parameters detailed in the table below.

Table 1: Library Investment Approximate Allocation Profile

Fund Type	Asset Allocation %			Term	Purpose	Managed by
	Cash	Bond / Debt	Equity / Alt			
Surplus Funds	100%			N / A	Library funds <u>excluding</u> cash provided from gifts, bequests and donations.	Library finance
STIF	100%			0–2 yrs	Where donations/bequests relate to projects expected to be completed within the next 2 years.	Library finance
MTIF	5%	30%	65%	2–7 yrs	Where donations/bequests relate to projects expected to be completed within the next 2–7 years.	Asset manager
LTIF	4%	7%	89%	7+ yrs	Where donations/bequests relate to projects which are expected to be delivered over 7 years or more, or which are not project related.	Asset manager
Key:	Surplus funds = non-donation funds STIF = Short-Term Investment Fund MTIF = Mid-Term Investment Fund LTIF = Long-Term Investment Fund				Approximate Asset Allocations: Cash = cash or cash equivalents Bond / Debt = Govt bonds & fixed interest Equity / Alt = global / Australian equities, approved or selected alternatives, emerging markets.	

7.2 Credit Quality – Surplus & Short-term investment funds:

To be eligible for an investment the financial institution must:

- be classified by the Australian Prudential Regulation Authority (APRA) as an Authorised Deposit-Taking Institution (ADI); and
- have a long-term credit rating of at least BBB or a short-term rating of A-2 based on Standard and Poor's (S&P).

7.3 Diversification – Surplus & Short-term investment funds:

The diversification table at Table 2 aims to maximise returns but reduce risk to an acceptable level by placing a maximum exposure of investment capital for short-term and long-term credit ratings as well as the maximum exposure per financial institution.

Table 2: Library Investment Risk Profile – Surplus & Short-term investment funds

Long Term Rating (Standard and Poor's)	Short-term Rating (Standard and Poor's)	Maximum % of Total amount Invested	Maximum % Invested with any one Financial Institution	Maximum Term of Investment
AAA	A-1+	100%	55%	365 days
AA+				
AA				
AA-				
A+	A-1	40%	40%	180 Days
A				
A-	A-2	25%	25%	90 Days
BBB+				
BBB				
BBB-	A-3	0%	0%	0

The S&P rating will be reviewed prior to the development of recommendations regarding investment actions. Credit rating definitions are outlined in the Attachments 1 and 2.

7.4 Return Objective – Mid-term and Long-term Investment Funds:

The objective for MTIF and LTIF is to achieve a net return of CPI + 4.0% over a rolling 7-year period, noting that this is dependent on the economic condition and overall market performance. Net return is equal to returns less investment administration costs.

7.5 Diversification – Mid-term and Long-term Investment Funds

Prudent diversification should be employed to reduce the likelihood of the MTIF and LTIF generating negative returns in a particular year. The investments for the MTIF and LTIF should be selected with the aim of limiting the chance of a negative return (in any one year) to once every 6 years.

7.6 Asset Manager Appointments and Review – Mid-term and Long-term Investment Funds:

Appointments and terminations of external asset managers will be made by the CFO and the COO in discussion with the Audit and Enterprise Risk Committee.

The performance of the MTIF and LTIF funds and asset managers will be reviewed at least annually by the CFO in consultation with the COO and with advice from the Audit and Enterprise Risk Committee.

8. Review

This Policy has been approved by the Library's Council (the accountable authority) and as per section 23(1) of the Library Act, it is published on the Library's website. This Policy will be reviewed 3 years after the approval date, and subsequently every 3 years.

9. Related Policy Documents and Guidance

The following documents and/or legislation were considered when developing this policy:

- National Library Act 1960
- PGPA Act 2013
- Trustee Act 1925
- PGPA Rules
- Commonwealth Climate Disclosure requirements.

Attachment 1

S&P Long-term credit ratings

Long-Term Issue Credit Ratings*	
Category	Definition
AAA	An obligation rated 'AAA' has the highest rating assigned by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitments on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.
BB, B, CCC, CC, and C	Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
BB	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments on the obligation.
B	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments on the obligation.
CCC	An obligation rated 'CCC' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitments on the obligation.
CC	An obligation rated 'CC' is currently highly vulnerable to nonpayment. The 'CC' rating is used when a default has not yet occurred but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated 'C' is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared with obligations that are rated higher.
D	An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.
*Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.	

Attachment 2

S&P Short-term credit ratings

Short-Term Issue Credit Ratings	
Category	Definition
A-1	A short-term obligation rated 'A-1' is rated in the highest category by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitments on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken an obligor's capacity to meet its financial commitments on the obligation.
B	A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments.
C	A short-term obligation rated 'C' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation.
D	A short-term obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.