

INVESTMENT POLICY

Policy Statement

The Thoracic Society of Australia and New Zealand Ltd (TSANZ) is committed to prudent investment and effective management of related risks by adopting appropriate controls and strategies required to meet its investment and organisational objectives.

1. Relevant Legislation

- Corporations Act 2001 (Cth)
- Australian Charities and Not-for-Profit Commission Act 2012

2. Scope of Policy

This policy covers financial assets only and excludes any physical assets.

3. Purpose

The purpose of this policy is to:

- 3.1 define the TSANZ's investment objectives and strategy;
- 3.2 establish roles and responsibilities of the Board, its Executive Committee Sub-Committee (EC), the external Investment Management Company and TSANZ Chief Executive Officer in relation to investment of TSANZ's financial assets; and
- 3.3 define TSANZ's investment guidelines, managing risks, and standards for monitoring investment performance and reporting requirements.

4. Investment Objectives

The TSANZ is a company limited by guarantee and has obligations to conduct its financial affairs in a prudent and transparent manner. As a health promotion charity TSANZ's business objective is to promote and advance clinical standards, education and research in respiratory diseases. It is a constitutional requirement for TSANZ to apply all its income and property for these purposes. TSANZ's principle underlying investment objective is to generate a reliable income stream and to grow its financial asset base. Specifically, TSANZ's investment strategy will seek to:

- 4.1 ensure that funds are invested in a manner that is secure and that will allow TSANZ to meet stated objectives;
- 4.2 maintain liquidity to meet anticipated cash requirements of TSANZ and to ensure that funds are available as required
- 4.3 not expose TSANZ's assets to risks that might threaten the viability of the Society or that would be inconsistent with its defined purposes;

5. Responsibilities

5.1 The TSANZ Board

The TSANZ Board has ultimate responsibility for ensuring that the financial assets of TSANZ are properly managed and will:

- 5.1.1 create and approve an Investment Policy;
- 5.1.2 maintain and review the Investment Policy;
- 5.1.3 nominate its members to the EC which will have delegated authority to make investment decisions;
- 5.1.3 appoint the external Investment Management Company as recommended by the EC;
- 5.1.4 set and communicate investment objectives to the EC;
- 5.1.5 make all investment decisions in excess of \$100,000 as per the TSANZ Delegations of Authority Schedule.
- 5.1.6 Set, review and amend when appropriate the spending or draw down of financial assets i.e. determine how much of the income and/or capital is to be spent by the organisation.

5.2 Executive Committee Sub-Committee

The EC will have delegated responsibility to:

- 5.2.1 make investment decisions up to \$100,000 (as per the TSANZ Delegations of Authority Schedule) including sourcing and making suitable investments in accordance with the Investment Policy;
- 5.2.2 make appropriate recommendations to the Board on investment decisions exceeding its delegation;
- 5.2.3 keep the portfolio of the financial assets under review, including to make full or partial realisation of or exit from investments, and to confer at regular intervals with the external Investment Management Company regarding the investment management of the portfolio of financial assets;
- 5.2.4 exercise all due diligence and vigilance in adhering to the stated responsibilities and investment guidelines set out in this policy;
- 5.2.5 exercise due care in selecting an external Investment Management Company and recommending to the TSANZ Board for appointment; and
- 5.2.6 conduct a performance review of the external Investment Management Company and make appropriate recommendations to the TSANZ Board.

5.3 External Investment Management Company

The external Investment Management Company must fulfil TSANZ's investment objectives and comply with the investment guidelines outlined in this policy document.

5.4 TSANZ Chief Executive Officer

The TSANZ CEO is responsible for organising the provision of up-to-date reports on the status of the investment portfolio. The CEO must also monitor compliance to finance and investment policies and procedures.

6. Investment Guidelines

6.1 General

The following general guidelines shall apply:

- 6.1.1 EC/external Investment Management Company will invest the assets prudently ensuring all investments have an adequate level of liquidity and diversification;
- 6.1.2 Dividend and interest distributions, excluding attached imputation credits, will be reinvested unless otherwise approved by the Board for the purpose of a specific project that aligns with the company's objects;
- 6.1.3 TSANZ will not enter into any type of securities lending arrangement, securities repurchase agreements or leveraged securities including warrants, options and other derivative products;
- 6.1.4 TSANZ will not enter into any margin lending facility or other liquidity support arrangements.

6.2 Approved Asset Classes and Target Asset Allocation

TSANZ portfolio's longer-term strategic asset allocation targets will be approximately as follows and revised on assessment of market risk as may be appropriate:

Asset Class	Allocations
Cash	5%
Australian Fixed Income	55%
International Fixed Income	10%
Australian Equities	20%
International Equities	5%
Other / Alternative Investments	5%

This position can be reviewed by the TSANZ Board and/or the EC as considered appropriate.

6.3 Risks

TSANZ is aware that every investment involves some degree of risk and will rely on the external Investment Management Company for professional advice and recommendations and make decisions as may be appropriate.

To mitigate the longer-term risk of inflation, TSANZ will target a long-term return from investment income and capital (before cost of management fees and any drawings during the year) of 4.5%¹, representing the current 1.25%² risk-free rate plus a 3.25% risk premium. (It is anticipated that the Cash Rate will fall further during the second half of 2019) Prudent diversification across asset classes and securities will be employed to mitigate negative outcomes.

TSANZ is aware that Other / Alternative Investments are a new asset class for the organisation, however will increase diversification. The EC will be responsible for ensuring Other / Alternative Investments are in alignment with the TSANZ's strategic priorities.

¹ Based on Morgan Stanley annualized return since inception of 4.61%

² Reserve Bank of Australia's current cash-rate as at 5th June 2019

6.4 Monitoring and Performance Reporting

The external Investment Management Company will provide every month a report on the TSANZ investment portfolio, including dividend and interest distributions, to the EC.

The Treasurer, as chair of the EC, will meet the external Investment Management Company as may be deemed necessary and advise the EC members and the TSANZ CEO on performance of the TSANZ investment portfolio.

The Treasurer will present to the TSANZ Board the most recent report at every Board Meeting, including all investment decisions made by EC after the last report to Board.

The external Investment Management Company will be invited on an annual basis to the TSANZ Board Meeting, to provide an overview of TSANZ portfolio, its performance in the preceding financial year and to provide any feedback on the Investment Policy, allocation and diversification.

The TSANZ Board, will review anticipated cash requirements for annual operations and its strategic initiatives. If deemed necessary, the Board will make a decision to transfer financial assets to cash.

6.5 Ethical Investment

TSANZ is concerned that it should be seen as a socially responsible investor in making any investment in individual securities or enterprises. TSANZ will not knowingly invest in tobacco companies or their subsidiary organisations or in organisations which operate at the expense of the environment, human rights or public safety.

TSANZ seeks to achieve an investment position that ensures we invest in companies with as low as possible percentage of income derived from fossil fuels with the aim of investing only in companies that achieve 10% or less of their total revenue from the fossil fuel industry (e.g. coal mining or asset ownership and coal-powered electricity generation) and industries involved in fracking, gas or oil.

TSANZ will invest in companies that align with TSANZ values, objectives and overall commitment to excellent lung health.

6.6 Conflict of Interest

It is the policy of TSANZ that its staff and others acting on its behalf, in particular members of the TSANZ Board and the EC, have the obligation to identify and manage ethical, legal, financial, or other conflicts of interest and to ensure that their activities and interests do not conflict with their obligations to TSANZ or its welfare. Regarding investments, the TSANZ Board will not knowingly invest in any company in which a Board or E C member has any significant financial interests.

It is TSANZ policy to review its Investment Policy every year or as may be deemed necessary by the Board.

Reviewed: 3rd May 2019

Endorsed: 12th July 2019