CANCER RESEARCH TRUST INVESTMENT POLICY

Effective Date: February 2019

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1. PURPOSE AND SCOPE

1.1. Purpose of this Policy

The purpose of this Investment Policy is to:

- Define the Fund's investment objectives and tolerance for risk;
- Specify the Fund's investment guidelines, standards for monitoring investment performance and distribution policy;
- Provide an evidence of prudence – a policy paper trail demonstrates ‘prudent’ investment management principles and processes; and
- Continuity – We believe that investment policy continuity during times of change is important. Similarly, the investment policy will focus on the objectives through all investment market environments.

1.2. Scope

This Investment Policy sets the parameters for managing the Fund. The Investment Policy is to apply to the investment portfolio consisting of Cancer Research Trust investable assets as determined by the Trustee.

The overarching objective of this policy is to enable the Trustee the ability to use their financial assets in a manner that supports their long term financial sustainability.

2. INVESTMENT OBJECTIVES

2.1. Investment Objectives

The investment objectives of the Fund are to:

- Ensure that the investment of the Fund are managed in compliance with Schedule 2 of the Fund Deed of Trust;
- Invest the assets prudently ensuring the portfolio has an appropriate risk profile and adequate levels liquidity and diversification;
- Generate total returns (capital and income) which exceed the outgoings of the Fund (distributions and costs) and enable the Fund to maintain its real capital value over time; and
- The Fund aims to (after deduction of all costs):
    - Grow the underlying capital of the Fund to offset the effects of inflation over the long term; and
    - Generate a growing income stream capable of funding the Fund's annual distribution requirements.

The investment *return objective* for this pool is to achieve a long term total return (income and capital growth) of Consumer Price Index (CPI) All Groups + 4% over a rolling 5 year period after fees. The strategy adopted must be set with a *risk objective* of limiting the probability of a negative return on the total portfolio to 1 year in every 6 years. This equates to a 68% probability that the range of returns will be between -0.5% and 15.5%.

2.2. Distribution of Capital

The Fund may distribute net income generated in a financial year subject to the provisions of the Deed of Trust. If the capital value of the Fund fails to keep pace with inflation, as measured by the capital value of the Fund at the start of the financial year adjusted for the movement in the CPI in the previous financial year, the required distribution may be reduced by the amount required to maintain the real capital value of the Fund.

Please refer to the Distribution Policy.

2.3. Asset Allocation

The recommended asset allocation for the Fund:

Asset Class	Benchmark	Ranges
Defensive Assets		
Cash	5%	2% to 15%
Fixed Interest - Domestic	10%	5% to 30%
Fixed Interest - Global	10%	0% to 30%
Alternative Assets - Defensive	5%	0% to 30%
Growth Assets		
Alternative Assets - Growth	5%	0% to 30%
Property	5%	0% to 15%
Australian Equities	35%	10% to 55%
International Equities – U/Hedged	25%	10% to 55%
Total	**100%**	

Note: Total combined exposure to Australian Equities, International Equities, Property and Growth Alternates will not exceed 85%.

3. INVESTMENT GUIDELINES

3.1. Asset Allocation Considerations

The following factors are to be considered when determining the asset allocation for the Fund.

- The income tax exempt status of the Fund;
- The time horizon for the pool of capital;
- The investment objectives of the pool of capital;
- The benefits of holding investments which provide access to franked income;
- The need for sufficient liquidity to meet distribution requirements;
- The potential impact of inflation, requiring an exposure to growth assets in order to maintain and grow the real capital value of the portfolio over the long term; and
- The utilisation of strategic asset allocation bands and tactical asset allocation to provide for flexibility as the investment environment changes.

The ranges provide flexibility for liquidity events such as significant withdrawals or contributions to the Fund. The benchmark represents the long term asset allocation aim for the Fund that best reflects the desired risk profile. It is understood that with market fluctuations, withdrawals and contributions it is unlikely that at any point in time the actual asset allocation will equal the benchmark exactly.

If the Trustee forms the view that the portfolio must be liquidated or invested in a manner outside the benchmark ranges, they will inform the Investment Manager in writing with details of the investment approach the Trustee is seeking to implement and the term of this position.

3.2. Diversification

In accordance with a prudent approach, diversification should be employed to reduce the likelihood of the Fund generating negative returns. Appropriate diversification of managed funds and individual Investment selection will be undertaken to offset investment risk.

The Fund’s investments should be selected with the aim of limiting the chance of a negative return (in any 1 year) to once every 6 years.

Further to this no single direct investment shall exceed 10% of the total portfolio at any time other than cash or bank term deposits.

3.3. Use of Alternate Investments

Alternative Investments are able to be utilised within the defined bands by the Investment Manager to manage portfolio risk by diversifying away from asset classes where additional allocation would potentially lead to under-performance. The key consideration within alternative assets is a low correlation with traditional asset classes.

The Alternative Investment universe includes a wide variety of different products and strategies such as Equity Long-Short, Market Neutral, Global Macro, Commodity Trading Advisors (CTA) and Private Equity.

Alternative Assets are split into two Asset Classes:

- Alternative Assets – Defensive; and
- Alternative Assets – Growth.

Each Asset Class should exhibit the following characteristics:

Alternative Assets - Defensive Strategies with more moderate return targets around cash +3% p.a. or lower and volatility profile likely to be around 3-5% pa (bond like volatility). These strategies aim to generate a low correlation with traditional assets classes.

Alternative Assets - Growth Strategies targeting cash +5% pa returns or higher, with risk levels between bonds and equities, but may range up to equity like volatility. Expectation is for a low correlation to equities, but there are some strategies which may have some equity correlations from time to time (equity long short / variable beta strategies).

The Investment Manager should have a rigorous process in relation to manager selection to ensure that the manager and strategy ensure that the risk reduction benefits of investment in this asset class are highly likely to be achieved. This process should be fully disclosed and discussed with the Investment Committee prior to any investment being undertaken.

An example of the key criteria:

- Underlying asset liquidity that matches the investor's liquidity requirements (daily liquidity ideal).
- Predictable (and stable) volatility (ideally with a stated volatility target).
- Low correlation with traditional assets (to provide large portfolio diversification benefits).
- Returns high enough above the cash rate to make the investment worthwhile.
- Long term track record of investment returns through multiple market stages.
- Team stability with high levels of experience.
- Transparent and logical leverage in the portfolio.
- High client service and communication levels from the manager.
- Fees that are aligned with the manager’s performance.

3.4. Ethical Investment Considerations

The Trustee has set the following ethical exclusions (negative screens) and will not invest in companies whose business involves:

- Tobacco manufacturing

When evaluating the fund managers that may be included in the Fund, the Investment Manager will take a best endeavours approach to ensure that there is no exposure to the excluded industries and stocks identified in this Policy.

The Trustee reserves the right to divest from organisations from whose management practices do not meet the standards accepted by Cancer Research Trust. Where the Trustee concludes an organisation is not behaving in a manner that meets these standards, it reserves the right to instruct the Investment Manager in writing to specifically exclude this organisation and all associated holdings from the portfolio.

The Trustee understands and accepts that the exclusion of industries and specific stocks has the potential to limit the investment universe available to the Investment Manager and as such limit the risk adjusted returns generated by the Fund.

3.5. Allowable Investments & Restrictions

Only investments in the following investment holdings are permitted:

Cash:

- Cash deposits, Cash Management Trusts/investments with Australian licensed and regulated banks and deposit taking institutions with no less than an A- credit rating; and
- Term deposits with maturities less than 90 days.

Fixed Interest:

- Direct Hybrid Securities;
- Direct Government and Corporate bonds;
- Term deposits with maturities greater than 90 days; and
- Managed fixed interest products.

Australian Equities:

- Direct Equities;
- Managed domestic equities products;
- Listed Investment Companies; and
- Exchange Traded Funds.

Property:

- Listed Real Estate Investment Trusts (REITs).

International Equities:

- Direct Equities;
- Exchange Traded Funds; and
- Managed international equities products.

Alternative Investments:

- Managed alternative asset products relating to strategies such as Equity Long-Short, Equity Market Neutral, Global Macro, Commodity Trading Advisors (CTA) and Private Equity.

3.6. Investment Restrictions

The following investment restrictions apply:

- No investments in fixed income instruments rated where the issuer rating is below investment grade (currently BBB-);
- No direct investment in assets which involve lending arrangements, repurchase agreements or leverage (including warrants, options or other derivatives);
- No more than 25% of the total portfolio in any one industry;
- No more than 10% of the total portfolio in any one issuer;
- No more than 10% of the total portfolio in any one stock;
- No more than 20% of the total portfolio in any one managed product or ETF;
- Directly held international equities must be listed on a recognised major stock exchanges of North America, Europe and Japan;
- Unless specifically authorised, the Fund shall not enter into any type of margin lending arrangement, nor allow any other borrowing to directly leverage the portfolio.

4. BENCHMARKS AND REPORTING

4.1. Asset Allocation Considerations

A performance report for the Fund should be compiled and submitted for review by the Investment Committee on a quarterly basis. The report should include:

- return for the Fund, expressed as a percentage;
- performance reports on individual investment Funds held;
- return on investment relative to the composite benchmark index for the overall Fund;
- the desired investment objective as stated in section 2; and
- the percentage of exposure to each asset class relative to the benchmark allocation.

The Investment Manager should present to the Trustee on historic performance and the investment outlook in person at least once per annum.

4.2. Performance Benchmarks

The Investment Committee should, on a quarterly basis, review the performance of the Fund using the performance benchmarks outlined below:

Asset Class	Benchmark
Cash	Bloomberg AusBond Bank Bill Index
Fixed Interest- Domestic	Bloomberg AusBond Composite Bond Index 0+ Yr Index
Fixed Interest - International	Barclays Capital Global Aggregate Index $A Hedged
Alternative Assets - Defensive	HFRI Fund of Fund Hedge Funds - Conservative $A Hedged Index HFRI
Alternative Assets - Growth	HFRI Fund of Fund Hedge Funds - Strategic $A Hedged Index
Property	FTSE EPRA/NAREIT Developed $A Hedged Index
Australian Equities	S&P/ASX 200 Accumulation Index
International Equities	MSCI World ex Australia Index A$

5. RISK STATEMENT

In seeking to maximise returns the Trustee is mindful of the inherent risks. Those risks are considered because they offer a reasonable expectation of compensation in the form of returns above the risk free rate (excess returns) over the time horizon of the Fund. Risks accepted in order to pursue the investment objective fall into five categories:

5.1. Liquidity Review

The Trustee recognises that short term risks may arise from the potential of the Fund to experience a shortfall in the income required to meet the expected cash outflows from the Fund. To offset this, the Fund should:

- maintain sufficient liquidity; and
- take into account the expected cash flows and costs.

5.2. Credit Risk

Credit risk (or counterparty risk) is the risk of default by the counterparty on its contractual obligations. At the Fund level, a framework exists to ensure that risk exposures remain within approved exposure limits based on the credit ratings of financial instruments and counterparties. Appointed managers of investments are required to ensure:

- the average credit quality within the manager's portfolio is within agreed guidelines;
- the exposure to different tiers of credit (including unrated debt) are within agreed guidelines; and
- the maximum permitted exposure to any one issuer is within agreed guidelines.

5.3. Market Risk

The Fund holds exposure to a wide range of assets which the Trustee expects will produce returns divergent from and superior to the risk-free rate over the long term.

Principal exposures include:

- broad equity market risk, both globally and in Australia;
- broad debt market risk, including interest rate duration, credit spread duration, credit quality migration and default risks;
- currency exposure, including risks of movement in the value of both the Australian dollar and the foreign currencies held;
- non-uniform performance within broad asset markets (e.g. divergence in returns by sector, geographic region, growth vs. value styles, and large vs. small stocks); and
- return uncertainties within the property and private markets.

5.4. Manager Risk

The requirements on the Fund's external managers to deliver superior returns also entail some risks. In particular, appointed managers may exceed or fall short of the objectives set for them by the Trustee. Market returns (beta) and manager performance (alpha) should be largely independent (i.e. performance of a manager relative to the broader market should not be impacted by the performance of that market itself).

Manager risk is generally managed by:

- careful selection and monitoring of managers to ensure there is sufficient confidence that each manager warrants the allocation of active risk to them; and
- monitoring the composition of the portfolios of active managers to ensure that there are no unintended biases away from the intended investment strategy.

5.5. Operational Risk

This is general operational risk that may involve an economic loss or reputation risk. It includes fraud, theft, unauthorised use of financial instruments and other breaches of delegated authority. This also includes loss due to poor transaction documentation, inadequate information systems or human error. To minimise this risk the Trustee will ensure that Management:

- keep proper accounts and records of the transactions and affairs;
- maintain a sufficient internal control framework that minimises potential loss arising from unrecorded or unauthorised transactions;
- place priority on the retention and recruitment of high quality staff; and
- ensure the availability and reliability of hardware and software systems.

6. RELEVANT LAWS

6.1. Relevant State and Territory Laws

The Trustee must comply with investment requirements imposed by State laws or Territory laws. Of specific relevance are the 'Prudent Person' provisions enshrined in the Trustee Acts of each State.

6.2. Taxation

Under current Australian taxation law, the investment income or capital gains are not subject to taxation and Cancer Research Trust is able to obtain a rebate of franking credits on relevant dividend income. This should be recognised when selecting investment strategies.

7. POLICY ADOPTION

The Policy adoption and amendments resulting from policy reviews must be approved and signed off by the Trustee.

This Investment Policy was adopted by

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Cancer Research Trust

Date: 15-02-2019

7.1. Change History

Version	Approval date	Approved by	Change
1.1	2010		Investment Policy Adopted
1.2	2015	Investment Committee	Strategic Asset Allocation
1.3	May 2017		Investment Objectives & Risk Profile Strategic Asset Allocation Ethical Considerations
1.4	August 2018	Investment Committee	Asset Allocation Ranges for Cash
1.5	February 2019	Investment Committee	Long Term Asset Allocation Ranges across all Asset Classes