NURSERY & GARDEN INDUSTRY NSW & ACT
INVESTMENT POLICY STATEMENT
ABN 36 001 075 574

Effective Date: 26th of February 2016

CONTENTS

1. DEFINITIONS AND PURPOSE

1.1 Definitions

In this document:

- ‘**NGINA’** means The Nursery & Garden Industry NSW & ACT, ABN 36 001 075 574;
- ‘**Fund**’ means the investment portfolio consisting of the NGINA investable assets;
- ‘**Financial Year**’ means a one year period from 1 July to ending 30 June the following calendar year;
- ‘**Investment Manager**’ means professional and qualified firms or individuals who are engaged by the Investment Committee to provide investment advice and services under contractual terms;
- ‘**Investment Committee**’ means the NGINA committee appointed by the NGINA to oversee the Fund’s investment Mandate;
- **'Investment Committee Charter'** means the document outlining the organisation, structure and responsibilities of the members of the Investment Committee as amended form time to time;
- **‘Secretary’** means the NGINA Company secretary;
- ‘**Chair’** means the person in charge of the meeting of the Board;
- **‘Investment Mandate’** means the Fund’s investment objectives, guidelines and strategy as provided for in the Policy; and
- **‘Investment Policy Statement (IPS)’** means this document as amended from time to time.

1.2 Purpose of this Investment Policy Statement (IPS)

The purpose of this IPS is to set out the Fund’s:

- **Alignment of the portfolio to the needs of the NGINA** – The investment portfolio is designed to consider the income and capital objectives of the organisation. The portfolio is to exhibit the characteristics and attributes required to deliver on the stated income and capital objectives.
- **Corporate Governance** – As an organisation we believe in strong corporate governance. This policy confirms a robust and considered investment policy for the organisation. It also articulates the authorities and responsibilities within the chain of processes. This reduces risk within the business and provides confidence for our stakeholders.
- **Evidence of Prudence** – A policy paper trail which demonstrates our organisation’s ‘prudent’ investment management principles and processes.
- **Continuity** – We believe that investment policy continuity during times of Board personnel change is important. Similarly, the investment policy will focus on the objectives through all investment market environments
- **A framework to review the philosophy and portfolio objectives** – This document will serve as a reference point for reviewing the organisation’s investment philosophy and the portfolio objectives on a periodic basis.
- **A framework to review the investment manager** – This document will also serve as a reference point to evaluate the performance of the investment manager on a periodic basis.

2. PREAMBLE AND SCOPE

2.1. Mission & Value

Nursery and Garden Industry NSW & ACT Limited (NGINA) is the peak representative body for the Nursery & Garden Industry in NSW & ACT and consists of members from many sectors of the industry.

Nursery and Garden Industry NSW & ACT Limited (ABN 36 001 075 574) is an Australian Public Company.

NGINA's principal activities are to facilitate the successful growth of the nursery and garden industry and the profitability and professionalism of members through promotion, representation, education and communication.

The association's long term objectives are to:

- Increase the membership base
- Promote and further the interests of members and the nursery industry; and
- Promote the industry to the public

Investment decisions made by the Investment Committee are to be done so in a manner that is going to further NGINA's ability to fulfil its purpose and execute its strategy both for short term needs and long term security..

2.2. Scope

NGINA is committed to a sustainable, responsible financial framework and has adequate resources to carry out our core purpose of providing services to our members.

This IPS sets the parameters for managing the Fund. The IPS is to apply to the investment portfolio consisting of the NGINAs investable assets as determined by the Board. The Board has ultimate fiduciary responsibility for the management of the Fund and has delegated specific authorities to the Investment Committee.

An overarching objective of this policy is to enable the NGINA to utilise its assets in a manner that maintains adequate liquid assets for business fluctuations and long term capital growth. The financial assets of the NGINA are separated into two distinct pools:

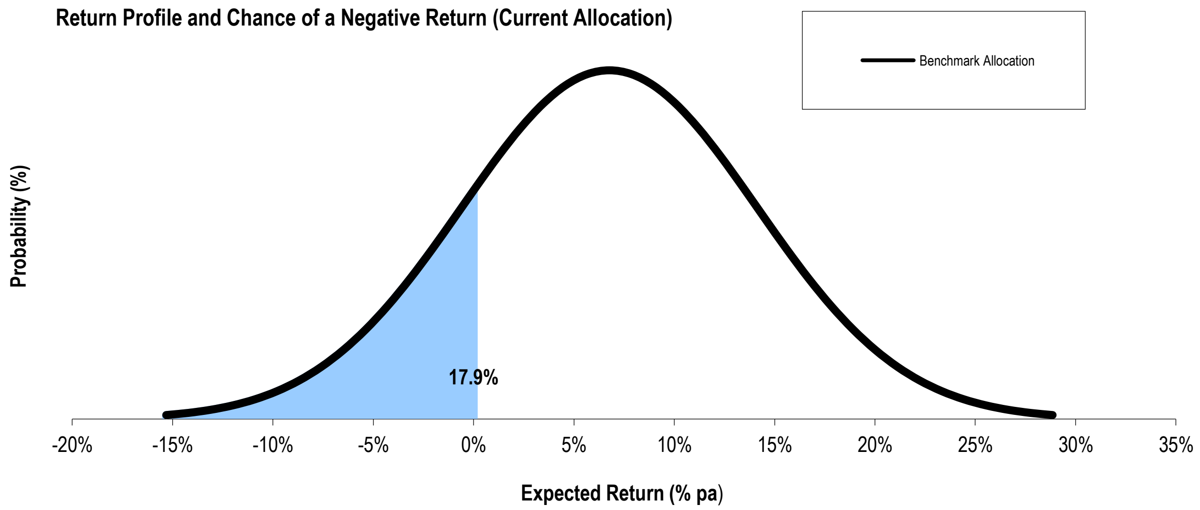
1. Operational Capital (working capital) - the primary objective is to meet cash flow requirements in a timely manner; and
2. Strategic Capital - The primary objective of the strategic capital is to produce a sustainable income stream so that NGINA has enough income to run the Association. The pool should have liquidity to enable the funding of any future property acquisition

3. INVESTMENT OBJECTIVES

The purpose of the capital of NGINA is to achieve the following objectives:

1. Have sufficient liquidity to ensure there is always cash to cover the operating costs of the organisation.
2. To generate total returns from capital growth and income that will augment membership fees, ensuring that NGINA has enough funding to run the Association.
3. To maintain the real capital value of the portfolio by generating a long term total return (income and capital growth) of Consumer Price Index (CPI) All Groups + 4.5% 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 every6 years. This equates to a 68% probability (one standard deviation above and one below) that the range of returns will be between -0.6% and 14.1%.



4. INVESTMENT GUIDELINES

4.1. Asset Allocation Considerations

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

- The income tax exempt status of NGINA's funds;
- The time horizon of pools of capital within the portfolio;
- The investment objectives of the organisation;
- The need for sufficient liquidity to meet the business requirements including the possible purchase of property;
- 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.

4.2. Asset Allocation Benchmarks

The asset allocation benchmark and ranges for the **Strategic Capital** pool is:

Asset Class	Benchmark	Ranges
Cash	5%	0% to 30%
Domestic Fixed Interest	25%	5% to 40%
Global Fixed Interest	10%	0% to 20%
Australian Equities	40%	30% to 70%
International Equities	15%	5% to 35%
Alternative Investments	5%	0% to 10%
	100%	

Note: Total combined exposure to Australian Equities, International Equities and Alternates will not exceed 70%.

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.

The Real Return allocation of the portfolio is expected to generate a return (capital and income) approximating 6.8% in the next 12 months. The yield is forecast to be 3.6%. The chance of a negative return is 1 in every 6 years.

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

4.3. 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 Strategic Pool's investments should be selected with the aim of limiting the chance of a negative return to once every 5 years.

In addition, no single investment shall exceed 10% of the portfolio at any time other than cash or bank term deposits.

4.4. Use of Alternate Investments

Alternative Investments can be utilised by the Investment Manager (within the defined bands) to manage portfolio risk by diversifying away from asset classes where additional allocation would potentially lead to underperformance. Alternative Investments are not to be utilised by the Investment Manager to increase returns if risk concurrently rises. Consequently Alternative Investments are only to be utilised in a 'defensive' manner to protect the Fund.

The Alternative Investment universe includes a wide variety of different products and strategies such as private equity, currency, unlisted property, direct infrastructure, mezzanine finance, distressed debt, hedge funds and commodities. The Investment Manager should have a rigorous process in relation to fund manager selection ensuring that the risk reduction benefits of investment in this asset class are optimised. This process should be fully disclosed and discussed with the Investment Committee prior to any investment being undertaken. An example of 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 - we want experts in their field.
- 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.

4.5. Ethical Investment Considerations

NGINA will have a responsible investment process, which takes environmental, social, governance (ESG) or ethical considerations into account. This will be determined by the Investment Committee but will ensure NGINA avoid for example, such investments where there are detrimental environmental practices or child labour. NGINA will promote investment in sustainable environmental practices and proper human capital management.

NGINA will not invest in securities or funds that are involved the production of tobacco, armaments nor pornographic industries.

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

Where the Board concludes an organisation is not behaving in a responsible manner, it reserves the right to instruct the Investment Manager in writing (via the Investment Committee) to specifically exclude this organisation and all associated holdings from the portfolio.

The Board 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 return generated by the Fund.

4.6. Liquidity Management

The significant majority of investment holdings are to be sufficiently readily marketable holdings that could be realised without significant delay to fund any shortfall in cash flow requirements.

4.7. 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 AA- credit rating
- Term deposits with maturities less than 90 days

Fixed Interest:

- Listed Hybrid Securities
- Government and Corporate bonds (listed and unlisted)
- Term deposits with maturities greater than 90 days
- Managed fixed interest funds with a portfolio that has an average issuer rating of not less than A-
- No international bonds/fixed interest products denominated in a foreign currency.

Domestic Equities:

- Equities listed on the Australian Stock Exchange
- Managed domestic equities funds
- Listed Investment Companies
- Exchange Traded Funds
- Listed Real Estate Investment Trusts (REITs)

International Equities:

- Exchange Traded Funds
- Managed international equities funds

Alternative Investments (refer to Section 4.4):

- Managed alternative asset funds relating to strategies such as long / short equity, private equity, currency, unlisted property, direct infrastructure, mezzanine finance, distressed debt, hedge funds, catastrophe bonds and commodities.

4.8. Investment Restrictions

The following investment restrictions apply:

- No investments in fixed income instruments where the issuer rating is below A-
- Listed Hybrid Securities will not constitute more than 30% of the asset class
- No direct investment in assets which involve lending arrangements, repurchase agreements or leverage (including warrants, options or other derivatives)
- No more than 25% of total portfolio in any one industry
- No more than 10% of total portfolio in any one issuer, other than a big four Australian bank.
- No more than 10% of total portfolio in any one stock
- No more than 20% of total portfolio in any one managed product or ETF
- All managed funds will have a track record of at least 3 years, are liquid and on the Investment Manager’s approved list.
- Directly held domestic equities must be included in the S&P/ASX 200 Index
- No IPO’s with a Market Cap under AUD $2 billion and not more than 5% of the asset class in any IPO
- Currency hedging cannot fall below 25% of the total exposure to International Equities

5. BENCHMARKS AND REPORTING

5.1. Performance Reporting

A performance report for the Fund should be compiled and reviewed 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;
- performance relative to the desired investment objective as documented in section 3; and
- the percentage of exposure to each asset class relative to the benchmark allocation.

5.2. Performance Benchmarks

The following benchmarks are to be utilised:

Asset Class	Benchmark
Cash	Bloomberg AusBond Bank Bill Index
Australian Fixed Interest	Bloomberg AusBond Composite Bond Index 0+ Yr Index
International Fixed Interest	Barclays Capital Global Aggregate Index $A Hedged
Australian Equities	S&P/ASX 200 Accumulation Index
International Equities	MSCI World ex Australia Index A$
	MSCI World ex Australia Index hedged to A$
Alternative Investments	HFRI Fund of Funds Composite Index

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

5.3. Reporting and Administration

The Investment Manager will provide quarterly reports and an annual report summarising current investment strategies, the Fund's performance, and any other relevant information to the Investment Committee, which in turn will provide it to Board.

6. INVESTMENT MANAGER AND REVIEW

6.1. Selection Criteria for Appointment of Advisers

The Investment Committee may appoint advisors in a number of areas including:

- legal, including advice on the statutory obligations of the Fund and assistance with contract negotiations with external parties;
- tax, including ensuring the tax obligations of the NGINA and the Fund are met and advising on the tax implications of particular investment structures (especially offshore); and
- audit, including advice on ensuring that the management controls in place within the NGINA and around the Fund are of sufficient standard.

Selection of advisors for these roles will take into account, among other criteria specific to the role:

- demonstrated commitment to best-practice portfolio management;
- the skills and experience the advisor brings to the role;
- the substance and viability of the advisor; and
- the costs that can be expected to be incurred.

6.2. Appointment of Investment Manager

The NGINA Board through its Investment Committee may appoint an Investment Manager to, amongst other things, invest and manage Fund as its agent. In such an event, NGINA shall enter into an agreement with the Investment Manager directing the Investment Manager to manage the Fund according to this Policy.

The Investment Manager should:

- hold an appropriate Australian Financial Services License (AFSL);
- have professional indemnity insurance cover and provide evidence of it upon request;
- comply with investment requirements imposed by State laws or Territory laws;
- invest and manage the Fund on behalf of the Investment Committee, including sourcing and making suitable investments in accordance with the Policy;
- keep the Fund under review, including making full or partial realisation of or exit from individual investments, and to confer at regular intervals with the Investment Committee regarding the investment management of the Fund;
- exercise all due diligence and vigilance in carrying out the Investment Manager’s functions, powers and duties under the Policy; and
- advise the Investment Committee of any breaches of the Investment Mandate and any material matters relating to the Investment Manager that in the opinion of the Investment Manager should be disclosed to the Investment Committee.

6.3. Investment Manager Performance

The performance of the investment manager is to be reviewed on an annual basis. In assessing the investment manager’s performance, consideration will be given to the following:

- investment style;
- responsiveness;
- communication;
- proactive approach to investment opportunities;
- value adding customer service;
- fees payable;
- flexible, accurate and timely reporting; and

- investment performance.

The Investment Committee recognises that short-term fluctuations may cause variations in performance; the Investment Committee intends to evaluate the Investment Adviser's performance from a long-term perspective.

6.4. Investment Manager Review

Investment advisers shall be formally reviewed by the Investment Committee every four years. A four year cycle after implementation will enable a critical assessment of the investment manager's performance.

Significant underperformance of the Investment Manager against the investment objectives may result in termination prior to the scheduled four year review.

6.5. Breaches of Investment Policy

Where the Investment Manager is in breach of the terms of the Investment Policy, the Investment Committee must conduct a review of the causes of the breach. Depending on the finding of this review the Investment Manager may be terminated outside the formal review cycle.

The Investment Manager will provide reporting on a quarterly basis where they will review, identify and disclose to the Investment Committee any breaches of this policy and the materiality of the breach.

A breach of more than 2% outside the benchmark ranges needs to be reported to the Investment Committee within 48 hours of the breach.

6.6. Policy Review

Due to the nature of the financial markets and the potential for change in the underlying portfolio over time, an annual review of this policy, including allowable investments and restrictions will be conducted by the Investment Committee in conjunction with the Investment Manager.

This review process will also address issues such as any proposals to alter the investment risk management strategy, alterations to delegated authority and any additional management information reporting requirements

7. RISK STATEMENT

In seeking to maximise returns the Board 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:

7.1. Liquidity Risk

The Investment Committee 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:

- utilise the two pools and maintain sufficient liquidity through the Operational Capital pool,
- take into account the expected cash flows and costs.

7.2. 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;

7.3. Market Risk

The Fund holds exposure to a wide range of assets which the Board 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.

7.4. External Fund 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 Board. 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.

7.5. 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 Investment Committee will:

- 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.

8. RELEVANT LAWS

8.1. Relevant Laws

The Corporations Act 2001 and the NGINA constitution establish the Board of Directors as the managing authority of for NGINA, a company Limited by Guarantee.

The Investment Committee and Board of NGINA must comply with investment requirements imposed by State laws or Territory laws.

8.2. Taxation

Under current Australian taxation law, the investment income or capital gains are not subject to taxation. This should be recognised when selecting investment strategies.

9. POLICY ADOPTION

The Policy adoption and amendments resulting from policy reviews must be approved and signed off by the Board. The Investment Committee will make all recommendations to the Board for approval.

This Investment Policy was adopted by

…………………………………………….

<Name>

President of NGINA

Date: <Insert Date>

9.1. Change History

Version	Approval date	Approved by	Change
1.1	January 2016		DRAFT Investment Policy
2.1	February 2016		Version 2.1, post the Investment Committee meeting on Friday 29th of January 2016
3.1	26th of February		Inclusive of Finance Committee Feedback
4.1	18th of April		Final revision from JBWere