

# Wakatipu Community Foundation Investment Policy Statement

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**Wakatipu Foundation contacts:**

**Raymond Key**

Chairman and IAC

027 442 3601

**Jonathan Gurnsey**

Deputy Chair and IAC

027 778 8117

**Andrew Davis**

Trustee and IAC

027 656 2232

## Wakatipu Community Foundation Investment Policy Statement

This Investment Policy Statement sets out the investment objectives of the Wakatipu Community Foundation and the way the investments will be managed to meet those objectives.

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## Defined Terms

"Custodian"	means the appointed custodian of the Wakatipu Community Foundation Fund which is currently Custodial Services Limited.
"Foundation"	means the Wakatipu Community Foundation.
"Foundation's Vision"	means "Connecting generous people who care with causes that matter – forever!".
"Fund"	means Wakatipu Community Foundation's investment Fund managed by the Investment Manager.
"FUM"	means the total sum of Wakatipu Community Foundation's funds under management
"Investment Income"	Means income from investment activities including dividends, interest, realised and unrealised gains/losses from holding investments and foreign exchange gains/losses.
"Investment Manager"	means the appointed manager of the Wakatipu Community Foundation Fund which is currently Craigs Investment Partners. Craigs Investment Partners manages the Foundation's investments, through Custodial Services Limited, the Custodian, in the name of the Foundation.
"IAC"	means Investment Advisory Committee.
"IAC Chair"	means the chairperson for the time being of the IAC.
"Investment Policy Statement" or "IPS"	means the Foundation's Investment Policy Statement.
"Real Income"	means interest income and dividend flow after adjusting for inflation.
"Strategic Asset Allocation"	means a mix of assets for Fund that is intended to be in place for the long-term.
"Tactical Asset Allocation"	means short-term alterations to a strategic asset allocation to reflect market conditions and expectations of future risks and returns.
"Trustees"	means the Wakatipu Community Foundation Trustees.

## 1.0 Background

The Wakatipu Community Foundation is a charitable trust set up to inspire generosity in the Wakatipu region and provide ongoing support for the charities and community groups that operate in the region.

Except for “pass through” giving, donors set up a “fund” that is perpetual in nature, with the sustainable income generated from investment assets purchased with this capital, utilised to fund charities in the region. These individual donor funds are pooled for investment management purposes (“the Fund”), and invested in accordance with this Investment Policy Statement, which aligns with the purpose.

The Foundation’s pooled Fund is projected to grow indefinitely into the future. The goals and objectives of the Foundation are strongly linked to the performance of the Fund. Income generated by the Fund (supplemented from time to time by capital growth) will be utilised by the Foundation to:

1. Pay administration and third-party expenses of the Foundation; and
2. Pay distributions to the nominated charities of the Foundation.

It is acknowledged that certain bequeathed assets and social impact lending may be held as additional investment assets outside of the Fund.

The Foundation shall appoint an Investment Manager to provide advisory, transaction and custodial services (or a combination of these).

Investments shall be within the agreed guidelines of this IPS and shall recognise that the Foundation is not a taxpayer.

## 2.0 Investment Policy Statement

This IPS identifies the key factors bearing upon decisions for the Fund and provides a set of written guidelines for the management of its assets.

This IPS, subject to the approval of the Trustees of the Foundation, takes effect from April 2018.

This IPS shall be formally reviewed on a biennial basis, with the next review to be undertaken in April 2020.

## 3.0 Roles and Responsibilities

### 3.1 Trustees of Wakatipu Community Foundation

The Trustees have the ultimate authority over and responsibility for the Fund.

It is acknowledged that the Trustees have the power *to invest all or any part of the Trust Fund in any way permitted by law and in such manner and upon terms as the Board thinks fit* [Clause 10.1 (e) of the Deed of Trust].

To assist in the performance of their duties and to ensure that the Fund meets its objectives, the Trustees will:

- Appoint an IAC

- Receive the IAC's recommendations with respect to the Fund's IPS and approve (or amend) the IPS, as appropriate, on a biennial basis;
- Delegate the authority for implementation of the IPS and the investment of the Fund to the IAC; and
- Review all other reports and recommendations of the IAC with respect to the Fund.

### **3.2 Investment Advisory Committee**

The IAC acts under a delegated power [Clause 15 of the Deed of Trust] where the delegation does not prevent the exercise of any power or the performance of any duty by the Board.

The investment IAC will:

- On a biennial basis, or more frequently if appropriate, review the Fund's IPS and make appropriate recommendations to the Trustees;
- Formulate recommendations to the Trustees regarding the selection, engagement or dismissal of a professional Investment Manager, a Custodian and any other specialist consultants they may wish to hire;
- Formulate specialised instructions and mandates for the Investment Manager including any restrictions on the type of assets that may be held in the Fund or the choice of asset mix. These instructions and mandates will derive from, reflect and be consistent with the provisions of this IPS;
- Set parameters within which the manager will have discretion to select, terminate or replace asset managers (sub-managers);
- Monitor the Fund performance and its compliance with the IPS and report on these matters to the Trustees on a quarterly basis;
- Monitor the Investment Manager's performance and compliance with the IPS as well as compliance with any specialised instructions and mandates the Investment Manager has been given;
- Take appropriate steps to insure the Fund is rebalanced, as necessary, per Section 9 of the IPS; and
- Take appropriate steps to resolve conflict of interest issues as provided for in Section 12 of this IPS

### **3.3 Investment Manager**

The Investment Manager will provide the IAC with information and advice to support:

- Fund asset allocation;
- Sub-manager selection and structures; and
- Fund investment selections;

that meet the objectives of the Foundation, within the parameters of the IPS.

Specifically, the Investment Manager will:

- Invest the Fund across a range of selected investments;
- Mitigate risk, having regard to the income and return objectives of the Foundation;
- Provide advice and guidance on asset allocation on a regular basis (at least quarterly), and on any relevant investment matter;
- Provide quarterly guidance to the IAC on the recommended annual distribution target on a forward basis;

- Provide a 12-month forward income forecast as at 31 March that can be used to plan for the annual distribution; monitor and report on the performance of the Fund and statement of holdings at least quarterly, and recommend any changes that may be appropriate;
- Meet regularly with the Chair of the IAC; and
- Review the objectives and strategies outlined in this document at least annually and consult with the IAC on appropriate adjustments according to any change in the Foundation's circumstances.

### **3.4 Custodian**

Custody of the Fund's assets, except for bequeathed assets and social impact loans or other assets that sit outside the IPS, will be delegated to a trustee company or other financial institution similarly recognized as a depository for securities.

The Custodian will report to the Foundation and will:

- Provide safekeeping for Fund assets;  
Process authorised transactions as directed by the IAC (via the Investment Manager);
- Collect interest, dividends and the proceeds of cash equivalent and fixed income instrument maturities;
- Inform the Investment Manager of pending corporate actions (e.g. name changes, mergers, etc.) and process instructions related to such matters;
- Deposit and transfer funds and payment of expenses as directed by the Foundation;
- Maintain a record of all transactions;
- Provide regular reports to the Foundation and to the IAC as provided for in Section 9 of this Investment Policy Statement;
- Provide the Foundation, the Investment Manager and other agents of the IAC with information required to fulfil their duties, or as directed by the IAC; and
- To the extent possible, provide applicable information as may be required by the Foundation's auditor.

### **3.5 Investment Decision-making**

The Investment Manager operates with a non-discretionary mandate, meaning it must seek approval of the IAC prior to implementing an investment decision.

All investment decisions shall be made by way of simple majority of the IAC members (in person or by email). However, with approval from the IAC Chair, the Investment Manager shall be able to make urgent decisions on investments which meet the IPS (up to a limit of \$50,000), where it is not practicable to obtain IAC input. The IAC Chair shall immediately following the decision/investment advise the IAC of the Chair's actions.

## 4. Investment Objectives

### 4.1 Return on Investments

The Foundation's investment objective is to generate a total investment return that achieves the granting objectives of the Foundation, recovers the cost of managing and administering the Fund, protects the long-term purchasing power of the capital component and establishes a reserve for future market declines.

The investment objectives of the Fund are:

- To grow the capital value of the Fund at least in line with inflation, to ensure the real value of capital is maintained over time.
- To generate sufficient cash return (consisting of interest, dividends and realised cash return) within the Fund on a rolling annual basis to:
  - Cover the administration expenses of the Fund, including the Investment Manager, (currently set at 0.20%);
  - Contribute to the operating expenses of the Foundation's administration (currently set at 1% of FUM); and
  - Provide sufficient nominal cash flow to grow the Foundation's annual charitable distributions measured on a real dollar value basis, (indicatively an income yield of between 3.5% to 5.0% pre-inflation) measured on a quarterly basis, after adjusting at each new quarter end for additional contributions received by the Fund.
- The expected long-run gross return (Investment Income) objective of the Fund, based on the asset allocation detailed in Section 6.1, is 6% net of inflation or 4.8% after expenses. Return volatility means this will not be achieved every year, but this is the target on a rolling 5-year basis, measured on weighted average FUM over that period.

The success of the Foundation's long-term investment strategy will be monitored in the context of meeting the Foundation's distribution policy as well as maintaining the real value of the Fund's capital (which will continue to grow with new donations).

### 4.2 Risk Tolerance

The IAC and the Trustees of the Foundation acknowledge the long-term investment objectives of the Fund and understand and accept that short-term investment market volatility may impact Fund valuations in the short term.

The objectives of the Fund are to minimise investment risk, to the extent possible, in achieving the Fund objectives, recognising the benefit of charitable status with respect to taxation.

The expected long-run annual risk (as measured by the standard deviation) of the Fund, based on the asset allocation detailed in Section 6.1, is 8.7%, measured on a rolling 5-year basis. The IAC and Trustees of the Foundation recognise this equates to a 1 in 3.5-year negative return.

The Manager will also compare Wakatipu Community Foundation's investment returns and risk (standard deviation of returns) over a rolling five-year period against similar funds from an independent investment return survey.

## **5. Investment Constraints**

### **5.1 Legal and Regulatory Status**

The Wakatipu Community Foundation is a registered Charitable Trust. Its year-end is 31 March.

### **5.2 Taxation Status**

The Foundation is registered with the Inland Revenue as a Charitable Trust. The Fund is exempt from income tax.

### **5.3 Investment Time Horizon**

The Foundation is perpetual in nature, and therefore the Fund enjoys a long-term investment horizon.

### **5.4 Liquidity and Income Requirements**

The Fund requires sufficient liquidity to support its annual distribution requirements, which are made in August of each calendar year.

The IAC, together with the Investment Manager must ensure there is sufficient Fund liquidity to support the nominal cash distribution as determined by the Trustees in compliance with 4.1 above.

### **5.5 Socially Responsible Investing**

The Fund will be managed with a Socially Responsible Investment framework which reflects the Foundation's Vision. The Fund will endeavour to exclude investments in the following areas:

- Alcohol; armaments; tobacco; pornography, and gambling.

When making new investments the IAC will consider ethical issues of the proposed investment.

## **6. Asset Mix**

A Fund's asset mix is the proportion within which various asset classes are represented in the Fund. In general, the greater a Fund's allocation to growth assets (equities) relative to income assets (fixed interest and cash), the greater the potential for increased return and inflation protection, but with greater investment risk. Conversely the greater the allocation to income assets relative to equities, the greater the Fund's potential for generating consistent returns, with reduced investment risk but with risk of inflation affecting real returns (but being protected against deflation).

Alternative assets (hedge funds, private equity funds, commodities and other financial assets) can offer lower correlation with growth or income assets (reducing Fund risk) and increased diversification.

Control of the Fund's Asset Allocation is, in the medium term, the principal means of controlling its risk and return characteristics.

## 6.1 Recommended Asset Mix

The following Strategic Asset Allocation reflects the Foundation's investment objectives and corresponding risk profile and shall be adopted as the benchmark Fund.

Asset Allocation positions that differ from the Strategic Asset Allocation may be taken from time to time, if deemed prudent considering market conditions and valuations with the objective of meeting the performance objectives, within the risk management parameters. However, the Fund shall remain invested within the ranges in each asset class as set out below. The ranges have been set with the intention to limit the overall risk of the Fund failing to meet its objectives.

**Table 1: Long Term Strategic Asset Allocation**

Asset Class	Long-term Strategic Asset Allocation Benchmark		Range Minimum	Range Maximum
NZ Equities	17.5%		0.0%	20%
Australian Equities	12.5%		0.0%	15%
Property Equities	12.5%		0.0%	15%
Global Equities	10%		0.0%	15.0%
Alternative Assets	7.5%		0.0%	10%
<b>Total Growth Assets</b>	<b>60.0%</b>		<b>0.0%</b>	<b>75.0%</b>
NZ Fixed Interest	30%		0%	100%
Cash and TDs	10%		0%	100%
<b>Total Income Assets</b>	<b>40%</b>		<b>25.0%</b>	<b>100.0%</b>

The Fund targets 60% invested in growth assets with a range of 0-75%.

Growth Assets shall be suitably diversified across New Zealand, Australian and global shares. Listed property shares are part of the growth assets.

The Growth Assets (including global equities and alternative assets) are implicitly assumed to have inflation protection via exposure to real cashflows overtime, (via the ability of businesses to re-price products and services).

It is intended that international investment assets are unhedged.

The range for Income Assets is 25% to 100% including the ability to hold 100% of the funds in cash. The ranges are skewed to a high cash weighting, to accommodate large cash inflows which may take time to get invested.

Sufficient holdings in cash shall be retained to meet the annual distributions to charities, which will be made in August each year.

The Income Assets (including social impact loans) of fixed interest, cash and term deposits provide nominal returns, and therefore, a separate inflation protection must be held within the Fund to protect real value overtime.

## **6.2 Asset Allocation Review**

The Strategic Asset Allocation shall be formally reviewed annually, during the first calendar quarter, following recommendation from the Investment Manager.

The Asset Allocation will be assessed at each quarterly report meeting with the Investment Manager, and adjusted as required, with the objective of meeting the medium to long term performance objectives of the Fund and acknowledging the risk profile of the Fund as set out in the Investment Policy Statement.

## **7. Investment Management Guidelines**

### **7.1 Eligible Investments – Definitions and Constraints**

#### **7.1.1 New Zealand Cash and Fixed Income**

##### **Overview**

The primary role of the fixed income component of the Fund is to provide for regular income and preservation of capital. A key intention of these guidelines is to minimise credit risk by constraining the core of the Fund to investment grade securities and limiting exposures to any individual issuer. Fixed income securities shall generally be held to maturity to minimise costs.

Mitigating interest rate risk shall also be achieved by the maintenance of a laddered Fund.

##### **Investment parameters**

- The fixed interest component of the Fund shall comprise a range of fixed interest securities, cash and short-term bank deposits.
- The fixed interest component of the Fund shall hold a diversified range of securities. These may include New Zealand Government stock, local authority stock, corporate bonds, term deposits, international bonds or tax efficient bond funds, interest rate swaps, floating rate notes (FRN) and forward rate agreements (FRA).
- No term deposit shall exceed five years.
- At least 90% of the fixed interest component of the Fund shall be invested in Issuers with a credit rating of BBB- (investment grade) or better or equivalent from Standard & Poor's, Moody's or Fitch.
- Local authority bonds are deemed to be investment grade. No more than 5% of the total held in cash and short-term deposits may be in local authority bonds.
- A minimum of 60% of the fixed interest component of the Fund shall be invested in securities with a Standard & Poor's credit rating of A- or better (or equivalent rating).

- Total exposure to New Zealand Government Stock may be up to 100% of the Fund. Total exposure to a New Zealand registered bank with a credit rating of AA- or better may be up to 20% of the fixed interest component of the Fund. All other total exposures across any one entity or its subsidiaries shall not exceed 15% of the fixed interest component of the Fund.
- No more than 30% of the fixed interest component of the Fund shall be invested in subordinated debt, and no more than 15% shall be invested in perpetuals.
- No more than 10% of the fixed interest component of the Fund may be invested in unrated debt or sub investment grade debt. If debt is unrated then it must rate equally with the issuer's senior debt. If debt is sub investment grade the issuer's credit rating must be at least investment grade
- Cash and deposits may be invested with an appropriate nominee company or directly with any of the New Zealand Registered Banks with a Standard & Poor's credit rating of A (or equivalent rating).

### **7.1.2 New Zealand and Australian Equities**

#### **Overview**

The primary goal of the New Zealand and Australian equity holdings is to provide sustainable income, growth in income over time, and capital growth. The best risk-adjusted returns come from holdings in quality companies purchased at reasonable prices. To this end, the Fund shall focus on stocks with characteristics that include:

- Defensive business and earnings
- Astute management and governance
- Attractive cash flow return on invested capital
- Operate in a favourable sector
- Potential for earnings growth
- A track record of earnings and dividend per share growth
- Sound financial position
- A reasonable valuation

#### **Investment parameters**

- New Zealand and Australian equities shall consist of holdings in direct equities, index funds, private equity funds and listed managed funds.
- Investments shall be confined to publicly listed, widely held securities trading in recognised stock exchanges. For clarification, in New Zealand this would mean securities listed on the NZ Stock Exchange.
- 75% of this component of the Fund shall be held in large cap stocks (i.e. members of the NZX 50 Index for New Zealand equities and ASX 200 Index for Australian equities).

- The New Zealand and Australian holdings shall complement each other as much as possible and sectors not available in New Zealand shall be obtained in Australia.
- Turnover shall be kept to a minimum. The Foundation has a long-term investment horizon and a buy and hold approach.

### **7.1.3 Global Equities**

#### **Overview**

The primary objective of the global equities holdings is to provide capital growth, sustainable income and growth in income over time. It is acknowledged that income will be capital in nature, rather than just dividends.

#### **Parameters**

Exposure to global equities shall be obtained through either listed index funds, tax effective listed managed funds, direct equities, or a combination of these options.

The role and makeup of each of the global equity exposures is as follows:

- Direct equities
  - Provide exposure to large multinational businesses with significant exposure global markets
  - Provide an income distribution via dividends, and the prospect for income growth
  - Access higher offshore growth rates
- Index funds
  - Provide a cost-effective core exposure to global markets
  - Constructed utilising exchange traded funds, principally listed in the United States
- Listed managed funds
  - Provide a tax effective means of accessing active managers
  - Hold a Fund of globally listed Investment Foundations, hedge funds and absolute return funds

### **7.1.4 Property Allocation**

#### **Overview**

The primary objective of the Property allocation is to provide, sustainable income and growth in income over time.

#### **Parameters**

- Both local and global listed property vehicles (LPVs) shall be included in the property allocation. No one holding shall constitute more than a third of the property holdings, when the property allocation is at its 12.5% Strategic

Asset Allocation benchmark. As the fund grows these limits may have to be reduced to avoid a high concentration in a few property investments.

- Preference shall be given to those with a track record of dividend per share growth.

### **7.1.5 Alternative Investments**

#### **Overview**

The primary objective of alternative assets is to provide investment returns that are less correlated to financial market returns. In this regard they provide important diversification of systematic risk, as well as return contribution.

Examples of alternative assets include infrastructure, private equity, venture capital, real estate, commodities, loans, mortgages, foreign exchange and any other financial assets that the IAC approves from time to time. The Trustees and the IAC accept that some of these investments are by their nature more illiquid than other asset classes.

#### **Parameters**

- An allocation of 7.5% of the Total Fund may be invested in alternative assets, but no one exposure shall be greater than 3% of the Fund.
- Each alternative asset investment must be assessed on its merits for inclusion in the Fund. Important attributes will include transparency of process and purpose, experience of the management team, track record of success, location and mandate of investment manager, and overall investment quality.
- For asset allocation purposes private equity which is deemed an alternative asset class shall be measured at the greater of the funds called or 85% of funds committed.

### **7.1.6 Bequeathed Assets**

- From time to time the Foundation may be a recipient of donor bequeathed assets where the wishes of the donor must be accepted and complied with. Where possible these assets will be held by the Custodian in the Wakatipu Community Foundation Distressed Assets Account.

### **7.1.7 Social Impact Loans**

- Defined as loans made to companies, organisations and funds with the intention to generate measurable social and environmental impact alongside financial returns.
- Impact loans will initially be set at 1% of Funds Under Management ("FUM") increasing at a rate of 1% per annum to a maximum of 5% of FUM.

- Impact loans to charitable organisations focussed on assisting low income, disadvantaged communities into housing shall be secured by way of registered first mortgage. Interest shall be set at a nominal margin above the corresponding bond rate. Loans shall not exceed five years and the LVR shall be less than 50%.
- Bequeathed assets and social impact loans will fall under the responsibility of the Trustees, and not the IAC.

## **7.2 Additional Constraints – Inclusions and Exclusions**

Derivative securities, other than those employed by other investments, may be held in the Fund for hedging of risk only.

Fund leverage is not permitted.

The IAC reserves the right to instruct the Manager to exclude any asset, securities or category of investment and will notify the Manager in writing if such restrictions are to be imposed.

## **8. Performance Standards**

### **8.1 Investment Returns**

The Fund's investment performance will be measured against the real return objective of an average 6% per annum after inflation. Performance measurement will be reported quarterly.

Fund volatility will be measured and reported on a quarterly basis.

The Investment Manager will be evaluated in terms of:

- Ability to achieve a 6% real return over a 5-year period without exceeding risk constraints;
- Performance consistency relative to the Fund's stated strategy and long term real return target;
- Compliance with the provisions of this IPS and any amendments thereto as well as any specialised instructions and mandates issued by the IAC; and
- The provision of satisfactory reporting and client service.

### **8.2 Risk Exposure**

The Fund's risk exposure, as measured by the standard deviation of its returns, will be evaluated on a quarterly basis, or more frequently as necessary.

## **9. Reporting and Service**

### **9.1 Investment Manager**

On a quarterly basis and within 30 days of the end of the calendar quarter, the Investment Manager will provide the IAC with:

- A valuation of the Portfolio as at the end of the quarter, including the market value of each security or pooled fund;
- Data and commentary on the Investment Manager's investment performance relative to the mandate's stated strategy and long term real return target, for the most recent quarter as well as for annual periods as agreed;
- A 12-month forward income yield forecast that can be utilised to plan for Fund distributions as per Section 4.1;
- Commentary on the Investment Manager's forward-looking investment views and plans for the Fund;
- Reporting on the volatility of the Fund during the quarter;
- Commentary on the investment strategy and tactics employed over the past quarter;
- Information pertaining to changes in ownership of the Investment Manager or senior management personnel and/or ownership structure, if any;
- Information pertaining to changes to the Manager's investment style, process or discipline.

The Investment Manager will be available for meetings with the IAC on a quarterly basis, or more frequently if required by the IAC, and will be available for discussion and consultation on an ad-hoc basis. In addition, the Investment Manager will be available for meetings with the Trustees as requested.

## **9.2 Custodian**

The Custodian will provide the Foundation with statements monthly. These statements will include, at a minimum, a summary and a detailed listing of assets held in the Portfolio as well as a listing of transactions (including deposits, withdrawals, receipt of interest and dividends, purchases, sales, corporate actions and fees paid) that occurred in the Portfolio during the reporting period.

The Custodian's reports will provide the book value and current market value of each asset held in the Portfolio, and categorize securities by issuer type, market sector and/or industry, as appropriate.

## **10. Review of the Manager**

The IAC will review the performance of the Investment Manager annually (each February).

The criteria for the review will include, but shall not be limited to:

- Performance of the investment Fund against return and risk targets;
- Quality and timeliness of reporting by the Investment Manager to the IAC;
- Brokerage, fees and costs; and
- Overall contribution of the Investment Manager to the Foundation and its investment Fund and philanthropic objectives.

The IAC shall report to the Wakatipu Community Foundation Trustees, on an annual basis at the March Trustees meeting, its assessment of the performance of the Investment Manager, including recommendations with respect to ongoing engagement.

## 11. Termination of the Manager

The IAC will consider recommending to the Trustees that the Investment Manager be terminated when one or more of the following circumstances prevail:

- The Investment Manager has deviated from its stated and agreed on strategy without a reasonable rationale, and without approval from the IAC;
- There has been a change in the Investment Manager's key investment personnel;
- The Investment Manager's performance has been unsatisfactory;
- The Investment Manager's reporting and client service are unsatisfactory;
- The IAC has concerns regarding the Investment Manager's ethics; or
- For any other reason the IAC deems appropriate.

## 12. Conflict of Interest

Where the Investment Manager has a conflict of interest in promoting an issue and cannot provide a recommendation:

- Where possible advice will be sourced by the IAC from other institutions.
- The IAC members may approve the decision without referral for independent advice where the quantum is less than \$250,000.
- Where the quantum is more than \$250,000, independent advice, where possible, will be sought.
- The Investment Manager shall always advise the Foundation of any conflict of interest.

## 13. Adoption of Investment Policy Statement

**The Trustees of the Foundation adopted this Investment Policy Statement effective [Date 2018] by way of resolution at this meeting on [Date 2018].**

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**Chair**

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**Trustee**

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## Wakatipu Community Foundation Investment Beliefs

These investment beliefs are designed to guide the IAC in developing the IPS and the portfolio investment decisions that follow.

In our view, it is important to clearly document these investment beliefs to enable the IAC to remain disciplined and provide the courage to stay the course when most needed – i.e. when markets are volatile and general sentiment negative.

1. Diversification within and across asset classes is a critical risk management mechanism.
2. The strategic asset allocation (or asset mix) decision is the most important factor in determining investment return and risk in the long-term.
3. Whilst less predictable in the short to medium term, asset classes tend to deliver predictable returns over the long-term.
4. Wakatipu Community Foundation's portfolio is long-term in nature, and therefore it can ride out volatility that may impact short-term investment performance.
5. Regular portfolio rebalancing helps to maintain an appropriate level of risk exposure.
6. Tactical asset allocation (or market timing) cannot be expected to consistently add value in the long-term.
7. High quality assets are a crucial element of risk control in a portfolio. Risk of permanent loss of capital should be minimised to the greatest extent possible.
8. Shares in companies are ultimately valued based on cashflow returned to stakeholders. Assets generating sustainable and growing cashflow returns offer better risk adjusted returns long-term.
9. Where active management is determined not to add value, such as in markets deemed to be highly efficient, passive management is the default choice.
10. Costs (administration, investment management fees, custodial fees, etc.) have a significant impact on long-term results and need to be carefully monitored and controlled to ensure value.
11. Any new types of investments under consideration should be carefully investigated to understand their risk/return characteristics in the context of the whole portfolio.

## Wakatipu Community Foundation SIPO Review History

2018 (Mar)	<p>Review. Target return of 6% before inflation on a rolling 5-year basis</p> <p>Target 40% Income / 60% Growth long term</p> <p>Social impact loans introduced as an asset class but to be held outside the Fund Manager's portfolio. Initially to be set at 1% of the FUM but increasing to a maximum of 5% over 5 years</p> <p>Investment beliefs added</p>
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