

**MICHAEL AND SUZANNE BORRIN
FOUNDATION**

**STATEMENT OF INVESTMENT POLICY
AND OBJECTIVES**

10 April 2017

1. Purpose

The purpose of the Statement is to:-

- a) Outline the policies and objectives that provide for the prudent investment of all the assets of the Michael and Suzanne Borrin Foundation (“the Foundation”), including both financial investments and funds invested directly in property.
- b) Set down policies that will underpin the preservation of the long term capital value of all investments while delivering satisfactory returns.
- c) Provide for the effective management of the investments by defining the role and responsibilities of the Trustee (Nikau Foundation) (the “Trustee”) and any appointed managers and advisers, establishing investment performance objectives, defining the investment constraints to be observed by the Trustee and ensuring adherence to such constraints.

2. Investment Philosophy

- a) The investment philosophy of the Foundation will reflect the fact that it is a perpetual fund, with capital preserved in the long term and requires regular income to fulfil its beneficial purposes.
- b) The level of investment risk accepted by the Trustee will be reflected in the selection of investments, the underlying security and quality, the income and the capital gain, if any, of these investments.
- c) The investment policy will foremost reflect a desire to preserve the medium term value of the Foundation’s assets, acknowledging that negative investment return years should be expected from time to time and will not invalidate the maintenance of the longer term capital objective or potentially limit the ability to continue distributions.
- d) Distributions may be sourced from time to time from any element of the investments of the Foundation and its investment returns, including distributed investment income, realised and unrealised capital gains and underlying capital.
- e) Capital value preservation will be sought over a medium term time horizon (7 to 10 years) and will be assessed after the impact of inflation and deduction of the costs of administering the Foundation.
- f) In order to meet the Foundation’s obligations and cashflow requirements sufficient funds should be invested in readily negotiable investments.
- g) The investment constraints placed on the Trustee are not designed to interfere with their ability to best manage the investment or to reduce the Foundation’s ability to take advantage of market conditions.

3. Investment Policies

- a) To preserve capital value, in real terms, over the medium term (7 to 10 years).
- b) To invest in a manner to provide the liquidity necessary to meet all the Foundation's cash requirements.
- c) To manage investment risk by appropriate diversification within and between asset classes, as specified in the Investment Guidelines in section 4.
- d) To comply with all applicable legislation requirements in taking investment decisions.
- e) To ensure that the Foundation's assets are invested in a prudent manner.

4. Responsible Investment Policy

- a) The Foundation subscribes to a philosophy of socially responsible investment. This is implemented via instructions to its investment managers that any investment decisions are to take into account socially responsible.

5. Roles of Participants in Investment Management

- a) The Trustee will establish and maintain investment policies (the Foundation SIPO), which will include the subsidiary Securities SIPO and the Direct Property SIPO.
- b) The Trustee may appoint an Investment Sub-Committee of the Trustee to act in its stead and undertake and fulfil any of its functions and powers as set out in the terms of reference for such Sub-Committee from time to time.
- c) The Trustee will engage and monitor the performance of any agents sub-contracted to perform investment or property management on its behalf, including ensuring that investments are managed in compliance with the respective SIPOs.
- d) The Trustee has decided that it will engage investment managers in respect of the Securities portfolio on a discretionary mandate basis where the investment manager has responsibility for maintaining portfolio asset structures and exposures and selecting individual securities.
- e) The managers, if any, of the financial assets and direct property assets will manage those assets in compliance, respectively, with the Securities SIPO and the Direct Property SIPO and will report to the Trustee on a regular basis, according to reporting requirements established by the Trustee.

6. Strategic Asset Allocation for the Foundation SIPO

- a) The Foundation SIPO is the SIPO governing the entire investment portfolio of the Foundation, including cash, securities and direct property investments.
- b) The strategic asset allocation under Foundation SIPO includes both growth and income assets, with direct property investments classified as growth assets.
- c) The strategic asset allocation of the Foundation is:

Asset Type	Benchmark	Range
Growth Assets	70%	50% to 80%
Direct property	30%	0% to 45%
Other growth assets	40%	30% to 75%
Income Assets	30%	20% to 50%

7. Direct Property SIPO - Investment & Management Guidelines

- a) Direct property investments may be held by the Foundation, within the portfolio allocation limits specified within the Foundation SIPO.
- b) Direct Property exhibits characteristics of both growth and income assets, but in this SIPO, in order to recognise its relative illiquidity and concentration risk it is treated as a growth asset.
- c) Where a Foundation SIPO limit is breached the Trustee must consider the matter and determine its response and resolve a plan for remedial action.
- d) Direct property holdings will seek to manage event and market risk across the direct property portfolio.
- e) The Trustee will seek independent expert advice when considering investment, development or divestment of direct property.
- f) The Trustee will engage independent professional property managers to manage any properties, including tenants, leases, inspections, maintenance and all the normal day to day operational management of properties, tenants and tenancies.
- g) The Trustee will monitor on a regular basis the performance of the direct property portfolio and the performance of the professional property managers engaged.

8. Securities SIPO - Investment Guidelines

- a) The investment portfolio weightings should be adequately diversified and should be balanced as far as possible between investment classes as set out in this SIPO, or otherwise as determined by the Trustee from time to time.
- b) The investment weightings under this Securities SIPO will have regard to any direct property investments held under the Direct Property SIPO so as to operate overall within the Foundation SIPO.
- c) The Trustee will inform any external investment manager of the quantum of any investment in Direct Property and the external investment manager will have regard to this in allocating investments within the parameters of the Securities SIPO to ensure total Growth Assets and / or Income Assets remain within the overall ranges for the Foundation as set out in section 6(c).
- d) Investment classes are as follows: -
 - NZ Cash / Short term investments will comprise deposits with or securities issued by the major registered New Zealand trading banks or their wholly owned subsidiaries.
 - Investments in Fixed Income securities may comprise:
 - i. NZ Fixed Income securities within the Prudential SIPO Guidelines set out in section 8(h);
 - ii. International Fixed Income securities via appropriate pooled investment vehicles with an average credit quality of Investment Grade (BBB Standard & Poors) or better.
 - Investment in public company listed equity securities in New Zealand or internationally or appropriate Exchange Traded Fund or similar pooled fund structures. No investment in a single company shall exceed 5% of the total investment portfolio and no investment in equity shall exceed 10% of the total equity investments.
 - An alternative asset is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. They can often be useful to include in portfolios as they are uncorrelated with more traditional asset classes or, can have a lower volatility. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult. Examples include unlisted growth assets (Private Equity), hedge funds and high yield debt instruments.
 - Any other investment that the Trustee shall approve.

Where fund managers are utilized via pooled fund structures it shall be their responsibility to ensure that the funds provided to them are managed in accordance with the governing documents and terms of those pooled fund products. The Trustee's appointed investment manager is to provide periodic assurance that any sub fund managers that are utilized for Securities investment have provided appropriate confirmation of compliance with their product governing documents and obligations.

- e) Asset Class Benchmarks and Ranges – Securities Portfolio:

Taking into account the benchmark weighting for direct property in the Foundations overall portfolio strategic asset allocation (see section 6(c)), the benchmarks and

ranges to be utilized by the investment manager for the Securities portfolio is to be as follows:

Financial Assets	Minimum	Benchmark	Maximum
NZ Cash	0%	5%	38%
Fixed Interest	0%	38%	43%
NZ Equities	12%	21%	30%
International Equities	27%	36%	45%
Listed Property	0%	0%	10%
Alternative Investments	0%	0%	5%
Total		100%	
Allocation to growth assets	48%	57%	66%
Allocation to income assets	34%	43%	52%
Total		100%	

f) NZ Fixed Income Prudential SIPO Guidelines:

Security Type & Categorisation	Aggregate Exposure to Single Issuer in category	Aggregate Portfolio Exposure in category
NZ Government Debt	100%	100%
NZ State Owned Enterprises Debt	35%	75%
NZ Registered Bank Debt	25%	75%
NZ Local Government Debt	N/A	75%
IG Rated NZ Local Government Debt	35%	75%
Non-IG Rated NZ Local Government Debt	15%	40%
Corporate Debt	N/A	75%
IG- Rated Corporate Debt	25%*	75%
Non-IG Rated Corporate Debt	15%*	35%
Unsubordinated IG Rated Registered NBDT Debt	20%*	20%
Perpetual (callable & non-callable)	N/A	25%
IG- Rated Supra, Sovereign, Agency Debt	35%	75%
Subordinated Ranking Securities	N/A	40%
IG Rated Subordinated Securities	N/A	40%
Non-IG Subordinated Securities	N/A	20%

g) Rebalancing the portfolio / SIPO limit breaches

Asset Allocation:

The Investment Manager has delegated authority to position the portfolio within the asset class ranges specified in section 8(e) of this SIPO. Where the Securities portfolio asset class exposure limits are breached through “mark to market” valuation movements, the investment manager will rebalance the portfolio back within the allowable ranges within one month of the breach being recorded.

Individual Securities:

Where the exposure limits are breached in respect of an individual security through day to day market movements or fund flows into or out of the portfolio it is expected that the investment manager will correct any position within one month.

General provisions:

Where the breach of an exposure limit occurs other than due to market valuation movements or as a result of fund flows in the case of individual securities the Trustee shall be informed within five working days of the deviations that exist in the portfolio and the manager’s intended actions to correct the position.

Individual securities that are held but then fall outside guidelines can be retained for longer periods than those specified above in order to protect the performance of the portfolio and its orderly management on agreement between the Investment Manager and Trustee.

(h) Currency Hedging

The Securities portfolio may be exposed to foreign exchange risk in respect of any international shares and international fixed interest investments in the portfolio held from time to time.

The Trustee’s benchmark policy is to maintain a 100% currency hedge to New Zealand dollars in respect of any international fixed interest investments. . It is, however, recognized that some minor deviations from this fully hedged level may occur from time to time due to practical implementation issues.

The Trustee’s benchmark policy is to maintain a 0% currency hedge in respect of any international share investments held in the portfolio. The investment manager may, however, hedge up to 25% of the total currency exposure arising from international share on an opportunistic basis.

(i) Derivatives / Leverage

The investment manager or any fund manager must not use derivatives, physical securities or any combination of the two to produce financial exposures that would result in the leverage of the portfolio. Derivatives should only be used to produce financial exposures which would otherwise be obtained through the use of physical securities in the absence of leverage.

9. Reporting/Monitoring

- a) The Investment Sub-Committee of the Trustee shall monitor the Foundation's investments.
- b) The Trustee shall regularly monitor the investment performance of all funds under management against relevant market benchmarks (where available).
- c) Investments will be revalued monthly for the purposes of monitoring performance.
- d) This policy will be reviewed at least annually.

•
—
•