

**MICHAEL AND SUZANNE BORRIN
FOUNDATION**

**STATEMENT OF INVESTMENT POLICY
AND OBJECTIVES**

14 October 2019

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").
- 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 requiring regular cash distributions 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 the total expected returns of these investments.
- c) The investment policy will foremost reflect a desire to preserve the medium term real 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 achieve an average rate of return of at least 3.5% p.a. after fees, expenses, inflation and tax (if any) over the longer term.
- b) To preserve capital value, in real terms, over the longer term.
- c) To invest in a manner to provide the liquidity necessary to meet all the Foundation's cash requirements.
- d) To manage investment risk by appropriate diversification within and between asset classes
- e) To comply with all applicable legislation requirements in taking investment decisions.
- f) 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 responsibility.

5. Roles of Participants in Investment Management

- a) The Trustee will establish and maintain investment policies for the Foundation in this 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 SIPO.

- 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 Securities Portfolio and the Direct Property Portfolio will manage those assets in compliance, respectively, with the SIPO and will report to the Trustee on a regular basis, according to reporting requirements established by the Trustee.

6. Strategic Asset Allocation

- a) The strategic asset allocation of the Foundation is:

Asset Type	Strategic Asset Allocation	Range	Strategy Assets
Securities Portfolio	80%	65% to 100%	Growth Assets: 60% Income Assets: 40%
Direct Property Portfolio	20%	0% to 35%	Direct Property 100%

7. Direct Property Portfolio Policy

- a) Direct property investments may be held by the Foundation, within the portfolio allocation limits specified within this SIPO.
- b) Specifically, the Direct Property Portfolio shall:
 - 1. only invest into properties located in New Zealand
 - 2. contain properties graded no worse than category B
 - 3. have tenant "types" that comply with our Responsible Investment Policy

4. have all properties managed by reputable property managers selected through an appropriate selection process and reviewed for performance on an ongoing basis.
- c) All direct property holdings to be subject to regular review for their appropriateness.
- d) The Direct Property Portfolio policy is to be reviewed every 5 years.

8. Securities Portfolio Policy

- 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) 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 any one equity fund shall exceed 20% 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 utilised 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 utilised for Securities investment have provided appropriate confirmation of compliance with their product governing documents and obligations.

c) Asset Class Benchmarks and Ranges – Securities Portfolio:

The Trustee entered into a Wholesale Discretionary Investment Management Service (DIMS) with Hobson Wealth Partners Limited (Hobson Wealth) for the management of the Securities Portfolio.

The Trustee has authorised Hobson Wealth to manage the Securities Portfolio using its 'Balanced Not for Profit' model portfolio. This has the following benchmark asset allocation:

Financial Assets	Minimum	Benchmark	Maximum
NZ Cash	0%	5%	25%
Fixed Interest	0%	35%	25%
NZ Equities	9%	19%	29%
Australian Equities	8%	18%	28%
International Equities	8%	18%	28%
NZ Listed Property	0%	5%	10%
Alternatives	0%	0%	5%
Total		100%	
Allocation to growth assets	50%	60%	70%
Allocation to income assets	30%	40%	50%
Total		100%	

Where active investment strategies are employed, the Securities manager is expected to exceed the returns of market indices after fees over rolling 3 to 5 year periods. In addition the total portfolio is expected to exceed the return of the market indices weighted by the benchmark asset allocation.

The market indices that the Trustees expect the securities manager to monitor its performance against are:

Sec	Index
NZ Cash	S&P/NZX Bank Bills 90-Day Index
Fixed Interest	S&P/NZX Corporate A
NZ Equities	S&P/NZX 50 Portfolio Gross w/o Imputation Credits
Australian Equities	S&P/ASX Accumulation 200 in NZD
International Equities	MSCI World Index in NZD
NZ Listed Property	S&P/NZX All Real Estate
Alternatives	As agreed with Trustee

d) 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%

e) 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 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.

f) 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, recognised 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.

g) 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 prior to the end of each financial year.

