Rātā Foundation

Statement of Investment Policy and Objectives

Adopted by the Trustees

On: 3 July 2017

Signed: ______________________

____

Contents Page

1.	Executive Summary	3
2.	Introduction	8
3.	Investment Beliefs	9
4.	Objectives	11
5.	Allocation of Responsibilities	13
6.	Investment Policies	18
7.	Investment Strategy	21
8.	Responsible Investment Processes	28
9.	Investment Performance Monitoring	32
10.	Distributions and Reserves	35
11.	Appendix A: Risk Management Policies	38
12.	Appendix B: Glossary	42
13.	Appendix C: Version Control	45

1

Executive Summary

Introduction

Rātā Foundation (the 'Foundation') is a Trust which, as its primary objective, provides annual distributions to the communities of Canterbury, Nelson, Marlborough and the Chatham Islands, for charitable, cultural, philanthropic, recreational and other purposes beneficial to the communities principally in the specified area.

Investment Goals

The broad investment goals of the Trustees are:

- To invest the Foundation's assets in such a way as to deliver the best possible risk-adjusted returns over the long term
- To ensure that funds are available for distribution, as required, to meet the needs and distribution policies of the Foundation
- To invest funds directly via Community Loans to achieve improved outcomes for the areas served by the Foundation
- To invest funds on a commercial footing in ventures with a footprint in the Foundation's funding region
- To maintain the value of the Foundation's capital base[1] in inflation adjusted terms[2]
- To provide a modest level of additional capital growth.
- To use best endeavours to invest prudently and consistent with the Foundation's commitment to the United Nations Principles of Responsible Investment (PRI)

Performance Objective

A real return after investment and operating expenses (and tax, if any) of at least 4.0% per annum over rolling ten year periods.

---

1 Adjusted to allow for the $25 million Special Fund created from Trust Capital in 2013.

2 "Inflation adjusted", in this context, relates to changes in the NZ Consumers Price Index (CPI).

Trustees

The **Trustees** are responsible for the following:

- Appointing an Investment Advisor
- Setting the Foundation's investment strategy, including the level of risk, investment performance objectives, and investment policies in consultation with the Investment Advisor
- Monitoring the performance of the Fund, its Investment Managers, and Investment Advisor against their investment performance objectives using data supplied by the Investment Advisor or such other analysis as the Trustees may commission
- Determining the appropriate investment manager configuration and selecting and changing those managers, as appropriate, on the advice of the Investment Advisor
- Selection of recipients of community loans and monitoring those loans
- Selection and monitoring of direct investments (including property and other directly held investments)
- Reviewing from time to time (preferably annually) this Statement of Investment Policies and Objectives ("SIPO"), including the investment strategy, policies and manager configuration, and instructions to Managers and the Investment Advisor
- Determining the annual amount of distributions to be made from the Foundation's assets and monitoring the level of reserves
- Approving rebalancing of the Foundation's investments, and/or approving a rebalancing protocol for the Foundation's investments after taking advice from the Investment Advisor
- Ensuring that the Investment Advisor is appraised of any changes to the Trustees' policies that could be expected to impact on the investment policies and objectives for the Foundation
- Appointing a Property Manager or Managers to manage the day to day operations of the directly held New Zealand Property portfolio
- If deemed appropriate, appointing a Property Advisor to assist with the strategic management of the directly held New Zealand Property portfolio and /or any other specialist advisers that may be considered necessary for the prudent oversight of the Foundation's investment portfolio from time to time.

The Trustees acknowledge the prudence of seeking professional advice if they intend to deviate from the terms and conditions of this SIPO.

Investment Advisor

The Trustees believe that an Investment Advisor can assist the Trustees to develop their investment strategy and policies, advise on investment manager selection, help evaluate the performance of the Foundation's investments and its investment managers, and provide strategic research and market information.

The Trustees may also appoint a Property Advisor specifically to assist them with the strategic management of the directly held New Zealand property portfolio and/or any other specialist advisors that may be considered necessary for the prudent oversight of the Foundation's investment portfolio from time to time.

Investment Managers

The Trustees' policy is that external investment professionals will be appointed to manage the funds, with the exception of that portion allocated to directly held New Zealand Property and the Cash assets supporting operational requirements and the Special Fund. The Trustees have further determined that the externally managed funds will be managed under a multi-manager, sector specialist structure.

Directly held New Zealand Property will be managed on a day to day basis by an appointed property manager or managers ("the Property Managers").

The cash portfolio supporting the Special Fund will be managed internally by the Foundation's Administration Staff in a manner which is consistent with the constraints set out in this SIPO.

Custodian

The Trustees' policy is that investment assets will be held by an independent custodian or an alternative Trustee depending on the form of the investment (recognising that investments in managed funds and multi-manager investments will generally have their assets held by their appointed Trustee).

Capital Base

The Foundation's Capital Base was $371.422m as at 31 December 1996.

In February 2013 a Special Fund of $25 million was established as a response to the Canterbury Earthquakes. This reduced the Capital Base by $17.615 million to $353.807million.

The balance of the $25m Special Fund was funded from the Inflation Reserve.

Strategic Asset Allocation

The Trustees have agreed that a target allocation of 40% to growth type assets is appropriate for the long-term target SAA, balancing the need to earn income to meet desired distribution levels and operational expenses with a desire to preserve and grow capital over time. More specifically the Trustees have adopted the following SAA (effective 31 August 2016).

Asset Class	Weight (%)	Benchmark	Weight (%)	Range (%)
Managed (Liquid) Investments:				
Listed Equities	25	Trans-Tasman Equities	7.0	5.5 – 8.5
		Global Developed Market Equities	15.7	13.0 – 18.5
		Global Emerging Market Equities	2.3	1.8 – 2.8
Listed Real Assets	3	Global Listed Infrastructure	3.0	2.4 - 3.6
Liquid Alternatives	4	Hedge Fund of Funds	4.0	3.2 – 4.8
Fixed Interest	42	NZ Bonds	15.5	13.0 - 18.0
		Global Bonds	23.0	20.0 - 26.0
		Emerging Market Bonds	3.5	2.8 – 4.2
Cash	13	Cash	13.0	10.0 – 16.0
Sub-total			**87.0**	
Direct (Illiquid) Investments:				
Property, Alternatives & Unlisted	15	NZ Direct Property	10.0	5 – 15.0
		Private Equity & Venture Capital	0.0	0 – 4.0
		Unlisted Real Assets: Infrastructure	3.0	0 – 5.0
Sub-total			**13.0**	**5.0-20.0**
Total			**100.0**	
Growth Allocation			**40.0**	**37.5 – 42.5**

The SAA accounts for the current allocation to illiquid investments (including direct property, private equity, venture capital, unlisted infrastructure and other alternative investments), while noting that there is an expectation for the Private Equity and Venture Capital investments to wind down (or be sold) over time and be re-invested in the property and unlisted infrastructure funds. As a result, the Trustees recognise that it may take some time before strategy for the illiquid portfolio can be fully implemented.

At this stage the agreed SAA does not make an allowance for Community Loans, direct investments in local ventures and the Special Fund. However, the Trustees acknowledge the need to consider the allocations to the Community Loans and direct investment strategies when monitoring portfolio liquidity and the Foundation's ongoing operational requirements.

The SAA will be reviewed regularly (at least annually) to ensure it remains appropriate for the Foundation's purposes.

Community Loans

At present Community Loans are not considered as an asset class for SAA or performance monitoring purposes. It is noted that such loans are granted on concessional terms to charitable organisations and accordingly are not expected to generate returns at a market rate. It is also noted that Community Loans are illiquid and need to be included when assessing compliance with limits on the anticipated level of illiquid holdings in the portfolio. The Trustees have agreed that an allocation of up to 4% of the investable assets of the Foundation shall be made available for Community Loans. The Foundation maintains a Community Loans Policy which outlines the objectives, criteria and process for lending Rātā Foundation money to approved organisations.

Special Fund

In recognition of the particular liquidity requirements of the Special Fund, the Trustees have set aside cash and fixed interest assets to support the Special Fund, "the Special Fund Reserve". These assets will be drawn down to meet payments made under the terms of the Special Fund. It has been decided that the assets of the Special Fund will be considered independent of the strategic asset allocation pertaining to the remaining investment assets of the Foundation.

Rebalancing Strategy

On the advice of their Investment Advisor the Trustees have agreed guidelines for rebalancing the assets from time to time to maintain compliance with the agreed SAA. These guidelines were updated in December 2014 and have been applied to the Foundation's strategic asset allocation (last updated in September 2016) since that date.

Distribution Policy[3]

The current distribution policy is to distribute in each year (1 April to 31 March) 4% of the lesser of:

1. The Real Capital Base[4] as at 31 March of the previous year; or
2. The unaudited asset value as at 31 December of the previous year.

Taxation

The Foundation is exempt from taxation on both capital gains and income. Ongoing investment management of the assets is to be carried out in a manner consistent with the Foundation's tax-exempt status. It is noted that on certain overseas assets it may not be possible to claim back all withholding tax paid to overseas authorities.

Review Dates

The Trustees aim to review this SIPO annually. The target date for the next review of this document is August 2018 or sooner if either market conditions warrant or the investment structure is altered.

[3] This distribution policy is the intended long term policy. Due to the impact of the seismic events of 2010 and 2011 additional distributions have been made since these events due to increased need.

[4] The "Real Capital Base" is the sum of the Capital Base and the Inflation Reserve.

2

Introduction

Purpose

This document establishes the framework set by the Trustees for the governance and investment of the **Foundation's investment assets ("the Fund")** by providing a clear statement of the investment policies and objectives that must be adhered to when investing the Fund.

Trust Deed

- The Foundation is constituted under the Trust Deed dated 17 December 2001, and the Deeds of Variation dated 29 March 2004 and 14 September 2015.
- The Community Trusts Act 1999 governs the Foundation.
- The Trust Deed permits the Trustees to invest the Foundation's assets, either alone or in common with any other person or persons, in any form of investment for the time being authorised by the law of New Zealand for the investment of Trust funds.
- The Trustees shall invest the assets of the Foundation in a manner expected to ensure the continuing compliance with the Trustee Act 1956, as amended from time to time, and any other relevant legislation.
- The Foundation exists in perpetuity.

Effective Date

This Statement of Investment Policy and Objectives ('SIPO') takes effect from **July 2017.**

Review Dates

The Trustees aim to review this SIPO annually. The target date for the next review of this document is August 2018 but may be earlier if either market conditions warrant or the investment structure is altered.

3

Investment Beliefs

The Trustees believe that a set of well-founded investment beliefs provides a sound foundation for investment success. The Foundation believes that:

- Effective governance and efficient management can reduce costs and risks, and lead to better investment outcomes
- Risk and return are related. Over the long term investors are rewarded for taking on additional risk
- Broad diversification among asset classes is the cornerstone of modern portfolio management. The differing characteristics of the varying asset classes provide risk-reducing benefits from diversification when they are aggregated into a total portfolio
- Asset allocation has a greater impact on investment returns than decisions concerning which specific securities to invest in
- Taking a sustainable investment view is more likely to create and preserve long-term investment capital
- Responsible investors who consider ESG (environmental, social and governance) factors improve long-term returns
- Markets are behavioural in nature and not always perfect. Active management of securities and asset allocation can often (but not always) add value and reduce risk
- External investment specialists are able to offer greater resources and flexibility in relation to investment strategy design and implementation.

Investment Approach

Reflecting the investment beliefs set out above:

- The Foundation is a long-term investor
- An Investment Consultant will be used to assist in the design of the investment strategy and the selection of Investment Managers
- The Trustees will aim for an investment strategy that includes a diverse set of investment assets
- The investment structure should not be so complex as to introduce unnecessary costs
- Sector specialist Investment Managers will be preferred

- Manager-of-manager strategies are considered a useful means of implementation
- Active management is favoured, but if considered appropriate, passive management may be used in some cases
- The Foundation is committed to integrating consideration of environmental, social and governance (ESG) issues into its investment decision making process and developing guidelines to integrate ESG considerations across different types of investments
- As a long-term investor, emphasis will be given to monitoring the Foundation's investment strategy and Investment Managers over the medium-to-long term, although short-term monitoring also has a role to play.

Statement of Fiduciary Responsibility

We recognise we are fiduciaries and our fiduciary responsibility does not end with maximising return and minimising risk.

We also recognise economic growth can sometimes come at a considerable financial and nonfinancial cost to communities and the environment.

We believe efforts to mitigate environmental degradation, address social issues and promote healthy communities should be incorporated as part of business and investment decision making. We believe management, directors, employees and investors should consider these issues in the pursuit of financial objectives.

We believe in light of the social, environmental and economic challenges of our time, fiduciary responsibility in the coming decades will dictate the integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike.

We believe foundations have a particular role to play in this process, seeing their mission not only in terms of the uses of income to fund programs, but also in terms of the ends toward which endowment assets are managed. The Trustees believe that the Foundation creates substantial social benefit through its grants and related philanthropic activities.

We believe it is essential to harmonise philanthropic mission and endowment management.

4

Objectives

Objects of the Foundation

The primary object of the Trust is to provide annual distributions to the communities of Canterbury, Nelson, Marlborough and the Chatham Islands, for charitable, cultural, philanthropic, recreational and other purposes beneficial to the communities principally in the specified area.

The Trust Deed allows Trustees to distribute funds to any organisation or body, whether incorporated or not, but not to any organisation or body conducting its affairs for private profit, nor may Trustees pay funds to an individual, except under conditions that ensure the funds are used exclusively in accordance with Objects of the Foundation.

Investment Goals

The broad investment goals of the Trustees are:

- To invest the Foundation's assets in such a way as to deliver the best possible risk-adjusted returns over the long term
- To ensure that funds are available for distribution, as required, to meet the needs and distribution policies of the Foundation
- To maintain the value of the Foundation's capital base[5] in inflation adjusted terms[6]
- To invest funds directly via Community Loans to achieve improved outcomes for the areas served by the Foundation
- To invest funds on a commercial footing in ventures with a footprint in the Foundation's funding region to support employment, economic growth, and other desirable outcomes for the areas served by the Foundation
- To provide a modest level of additional capital growth.
- To use best endeavours to invest prudently and consistent with the Foundation's commitment to the United Nations Principles of Responsible Investment (PRI)

---

5 Adjusted to allow for the $25 million Special Fund created from Trust Capital in 2013.

6 "Inflation adjusted", in this context, relates to changes in the NZ Consumers Price Index (CPI).

Performance Objective

A real return after investment and operating expenses (and tax, if any) of at least 4.0% per annum over rolling ten year periods.

Risk Profile

The Trustees seek to avoid excessive volatility in returns, both within years and between years. Accordingly, investment decisions aim to limit the downside risk of the Fund by diversification across investment sectors and local and global economies.

The Trustees have assessed the Foundation's Investment risk profile as medium, as follows:

- Returns - medium returns are desired, but lower returns are acceptable
- Volatility - is medium in order to avoid wide variation in distributions and/or the balance of the Accumulated Income Reserve.
- Timeframe - is over the medium term, though also have a long term focus
- Distributions - to enable stable distributions (although there is some tolerance for grant cuts or variations)
- Capital - have a strong desire for real capital preservation

The risk profile of the investment strategy of the Trustees will be set to maximise the long-term return within the context of the market environment and risk levels as follows:

- The long term performance objective of a real return after investment and operating expenses of at least 4.0% per annum is expected to be achieved with a probability of 63%[7] over a ten year period.
- In any one year, the Foundation's return could reasonably be expected to be as low as –1.9% (5th percentile) and in a crisis period, it could be as low as –9.5% (1st percentile)[8].
- The probability of a loss (after inflation) in any 12 month period is 16.1%[6]; i.e. a negative real return is expected 1 in every 6.2 years.

---

7 This probability is based on expected market returns as determined by Mercer for their strategic asset allocation model as at March 2016. Returns from active management are expected to increase the confidence of meeting this objective.

8 Mercer strategic asset allocation model as at March 2016.

5

Allocation of Responsibilities

Trustees

The **Trustees** are responsible for the following:

- Appointing an Investment Advisor
- Setting the Foundation's investment strategy, including the level of risk, investment performance objectives, and investment policies in consultation with the Investment Advisor
- Monitoring the performance of the Fund, its Investment Managers, and Advisors against their investment performance objectives using data supplied by the Investment Advisor or such other analysis as the Trustees may commission
- Determining the appropriate investment manager configuration, and selecting and changing those managers, as appropriate, on the advice of the Investment Advisor
- Selection of recipients of community loans and monitoring those loans
- Selection and monitoring of direct investments (including property and other directly held investments)
- Reviewing from time to time (preferably annually) this SIPO, including the investment strategy, policies and manager configuration, and instructions to Managers and the Investment Advisor
- Determining the annual amount of distributions to be made from the Fund and monitoring the level of reserves
- Approving rebalancing of the Fund's investments, and/or approving a rebalancing protocol for the Fund's investments after seeking advice from the Investment Advisor
- Ensuring that the Investment Advisor is appraised of any changes to the Trustees' policies that could be expected to impact on the investment policies and objectives for the Foundation
- Appointing a Property Manager or Managers to manage the day to day operations of the directly held New Zealand Property portfolio
- If deemed appropriate, appointing a Property Advisor to assist with the strategic management of the directly held New Zealand Property portfolio and /or any other

specialist advisers that may be considered necessary for the prudent oversight of the Foundation's investment portfolio from time to time.

The Trustees acknowledge the prudence of seeking professional advice if they intend to deviate from the terms and conditions of this SIPO.

Investment Advisor

The Trustees believe that an **Investment Advisor** will assist them to develop their investment strategy and policies, advise on investment manager selection, help evaluate the performance of the Foundation's investments and its investment managers, and provide strategic research and market information.

The **Investment Advisor** is responsible for the following:

- Advising the Trustees in the development and review of the Foundation's investment policies
- Recommending a strategic asset allocation (Benchmark Portfolio and strategic asset allocation ranges) consistent with the Trustees' risk and return objectives, and evaluating over time the appropriateness of the strategic asset allocation ("SAA")
- Advising on a transition strategy when SAA changes are agreed so as to minimise transaction costs and implementation leakage
- Recommending a protocol for the rebalancing of the allocation of the assets to maintain the agreed SAA and remain within the agreed asset allocation ranges, and recommending changes to that protocol so as to remain consistent with best practice
- Advising the Trustees on the management of currency risks associated with investments made in currencies other than the NZD
- Advising the Trustees to incorporate Environmental, Social and Corporate Governance "ESG" considerations into investment analysis and decision making in accordance with their commitment to Responsible Investment
- Monitoring each Investment Manager's performance and the Foundation's total performance relative to the Foundation's adopted Investment Performance Objectives
- Recommending changes, when required, to any of the external Investment Managers engaged by the Trustees, and/or the appointment of any additional Investment Managers
- Liaising with an Investment Manager in the event of the Trustees resolving to make changes to their mandate
- Meeting with the Trustees and/or their representatives (as directed by Trustees) to present investment monitoring reports and to discuss topical investment issues, using language that the Trustees and their representatives can comprehend
- Ensuring that all oral investment recommendations made by the Investment Advisor to the Trustees are confirmed by a subsequent written commentary, which is to be received prior to any associated instructions being given to Investment Managers
- Monitoring the split of assets between the Investment Managers on a monthly basis relative to the SAA and advising management when rebalancing is required in accordance with the rebalancing protocol

- Advising the Trustees about events and changes that may affect the manner in which the Foundation's assets should be invested, including views on medium-term asset class valuations
- Advising and participating with the Trustees in the regular review of this SIPO and liaising with the Investment Managers in the event of a change to the SIPO that impacts their mandate
- Declaring any conflict or perceived conflict of interest immediately the Investment Advisor becomes aware of such a situation
- Advising the Trustees of any conflict or perceived conflict of interest in relation to the Foundation of any of the Investment Managers immediately the Investment Advisor becomes aware of such a situation
- Assisting with Trustee investment education.

Property Advisor

The Trustees may also appoint a Property Advisor to assist them with the strategic management of the directly held New Zealand property portfolio. Any such **Property Advisor** is responsible for the following:

- Assisting the Trustees to identify suitable properties for inclusion in the portfolio
- Advising the Trustees on trends and outlook for direct property investments in the New Zealand market
- Recommending appropriate strategies for the diversification and risk management of the directly held property portfolio
- Appraising the Investment Advisor in relation to the above matters as requested by the Chair of the relevant Board Committee.

Investment Managers

The Trustees' policy is that external investment professionals ("**Investment Managers**") will be appointed to manage the Foundation's investments, with the exception of that portion allocated to directly held New Zealand Property and Cash assets supporting operational requirements and the Special Fund (which will be managed internally in accordance with this SIPO). The Trustees have further determined that externally managed funds will be managed under a multi-manager, sector specialist structure.

Each **Investment Manager**[9] will be responsible for the following:

- Managing the Foundation's assets in accordance with the investment management agreements and/or relevant product disclosure documents
- Selecting securities within each asset class, subject to the constraints imposed in this document, or constraints described in either the relevant product disclosure documents or by the policies advised by the Trustees and any applicable legislation
- Supplying the Trustees with reports of investment performance results in advance of regular meetings, and at the Trustees' request, participating in those meetings to review the written reports. The reports shall contain such information and be in such format as

[9] With the exception of the Property Manager or Managers

agreed with the Trustees, but must contain sufficient information to enable the annual financial statements and any necessary tax calculations to be produced

- Managing the investment of the Foundation's assets in a manner which is consistent with its tax exempt status
- Investment managers are expected to exercise all voting rights, including but not limited to voting proxies. Investment managers must exercise these voting rights in accordance with the knowledge that the Foundation is a signatory to the UNPRI.

Property Managers

The Trustees' policy is that external property management professionals ("**Property Managers**") will be appointed to manage the directly held New Zealand Properties.

The **Property Manager or Managers** will be responsible for the following:

- Reporting on the day to day operational matters of their portfolio to the Trustees via the relevant Board Committee, and as requested to the full Board of Trustees
- Managing the properties in accordance with the property management agreements between them and the Trustees
- Ensuring that lease and operating expenses are paid when due and following up any arrears promptly
- Assisting with lease renewals and rent reviews as these arise in a timely fashion
- Identifying and introducing potential high quality tenants

Management of Internally Managed Cash Portfolio

The Trustees' policy is that the Special Fund Reserve assets and the Foundation's working cash portfolio ("together the Internally Managed Cash Portfolio") will be managed internally in accordance with the restrictions and guidelines set out in this SIPO.

The management of this portfolio will be overseen by the Chief Financial Officer who will be responsible for the following:

- Reporting to the relevant Board Committee on the day to day management of this portfolio in accordance with reporting requirements agreed with that Committee
- Liaising with the Investment Advisor in relation to the Foundation's cash flow requirements including those related to rebalancing of the Fund.
- The Trustees have resolved that the Special Fund and working cash portfolio will be excluded for performance monitoring purposes.

Custodian

The Trustees' policy is that investment assets will be held by an independent custodian where possible or an alternative Trustee depending on the form of the investment (recognising that investments in managed funds and multi-manager investments will generally have their assets held by their appointed Trustee).

The **Custodian** will be responsible for the following:

- Holding in safekeeping the Foundation's investment assets, whether directly held securities or units in a pooled fund, on behalf of the Trustees
- Settling investment transactions on receipt of appropriately authorised instructions
- Independently valuing the Foundation's assets and reporting to the Trustees on their investment holdings and the performance of those assets
- Supplying regular position, transaction, performance reporting internal and external investment costs incurred by each Investment Manager to the Trustees and the Investment Advisor as agreed in the Management Agreement
- Liaising with the Trustees' Investment Managers and Investment Advisor to facilitate currency hedging, the reconciliation of holdings and performance monitoring

The Custodian will not have responsibility over the Trustees' investments in directly held New Zealand Property or Internally Managed Cash.

6

Investment Policies

General

- In making decisions on investment strategy, the Trustees will have regard to the overall circumstances of the Foundation and will comply with all applicable legislative requirements.
- Not more than 5% of the Fund's assets may be invested in any one investment without specific consideration and approval by the Trustees.
- The Trustees' interest in any externally managed pooled fund domiciled offshore shall not exceed 10% of the assets of that pool, unless a larger investment is specifically authorised by the Trustees.
- It is the Trustees' expectation that the Foundation's investable assets will fall within the asset types contemplated by this SIPO. Investments in assets other than those contemplated by this SIPO should only be made after due consideration by the Trustees of appropriate professional advice.

Risk Management

- It is noted that the Foundation's assets are exposed to different investment risks that will lead to variations between the actual and expected returns. The Trustees have developed management policies and principles to reduce the potential negative effects of these risks on the Foundation's assets and their distribution policies.
- Key investment risks and mitigating factors are set out in Appendix A.
- In addition, the following apply:
    - The Trustees meet regularly and review the investment performance and outlook as a specific agenda item
    - A comprehensive investment reporting process applies
    - An independent Investment Advisor is used
    - Professional investment managers are used for most asset classes
    - An independent custodian holds and values most investment assets
    - The investment policies are subject to review from time to time (preferably annually)

- The movement of cash and trades requires two authorised signatories

- The risk management policies will be reviewed from time to time (preferably annually) in light of the Trustees' overall strategies, to confirm their ongoing appropriateness.

Taxation

- The Foundation is a Community Trust as defined in the Community Trusts Act 1999 The Income Tax Act 2007 specifies the income of a community trust is exempt tax.
- Ongoing investment management of the Fund is to be carried out in a manner consistent with the Foundation's tax exempt status. It is noted that on certain overseas assets it may not be possible to claim back all withholding tax paid to overseas authorities.
- The Trustees recognise that certain tax credits (such as imputation credits on the dividends of domestic equities) cannot be utilised owing to the Foundation's tax exempt nature.
- The Foundation does not need to use Portfolio Investment Entities ("PIEs") vehicles, but where the Trustees elect to invest into a PIE vehicle a 0% Prescribed Investor Rate ("PIR) will be elected in accordance with the Foundation's tax exempt status.

Derivatives Policy

In the following policy "Portfolio" relates to the portion of the Fund's assets under the management of the Investment Manager

- Each Manager is entitled to make use of derivative contracts for the following purposes:
  - to alter the Portfolio's asset allocation (including country and/or currency allocations) within the given exposure ranges
  - as a hedge to manage exposure to foreign currency or other investment risks
  - to reduce transaction costs and improve liquidity by using derivative contracts to take a position which would otherwise have been taken by buying or selling physical stock.
- The 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. That is, the Portfolio's net exposure to investment markets exceeding the value of the Portfolio's physical assets. Derivatives should only be used to produce financial exposures which would be otherwise obtained through the use of physical securities in the absence of leverage.
- The Manager must not use derivatives, physical securities or any combination of the two to produce financial exposures that would be effectively net short positions. A net short position is considered to be the taking and maintenance of a position in respect of one asset whereby the value of the Portfolio will be enhanced if the price of that asset falls without a corresponding effective long position on the same or a highly correlated asset. Where a short position is effectively taken over more than one asset, as in the case of a basket of index derivatives, the corresponding long exposure may be a basket of physical or derivative securities which could reasonably be considered as a proxy for those assets.

Internally Managed Cash Portfolio

The Internally Managed Cash Portfolio is subject to the following guidelines and constraints

Permitted Investments	Investments in short term NZ money market securities as follows: ▪ Deposits in Registered Bank or securities issued by Banks, approved under Section 2 of the Reserve Bank of New Zealand Act 1989 ▪ Securities issued or guaranteed by New Zealand Government ▪ NZ Local Authority debt & Local Government Funding Authority debt ▪ Promissory Notes and Floating Rate Notes	
Portfolio Duration	Maximum of 1 year	
Investment Restrictions	*Sector Limits*	
	Cash / Treasury Bills / Bank Bills / Term Deposits	0-100%
	Promissory Notes	0-100%
	Floating Rate Notes	0-50%
	Issuer Limits	
	Banks	
	A-1+, A-1	The greater of 20% or up to $20 million in any one Bank
	A-2 or lower	Not permitted
	Promissory Notes	
	A-1+	The greater of 10% or $2m to any one issuer
	A-1	Not permitted
	Floating Rate Notes	
	AAA	No more than 20% to any one issuer
	AA+,AA, AA-	No more than 15% to any one issuer
	A+,A	Banks – no more than 15% to any one issuer Non-Banks – not permitted
	A-	Not permitted
	Maturity Limits	
	Cash / Treasury Bills / Bank Bills / Term Deposits	Maximum 1 year
	Promissory Notes	Maximum 1 year
	AAA Rated Floating Rate Notes	No restriction
	Floating Rate Notes rated AA+ and lower	Maximum expected weighted average life 3 Years

7

Investment Strategy

Investments can generally be divided into broad asset classes within which investments share common characteristics. The performance of the various asset classes tends to differ. Broad diversification across, and within, asset classes is the cornerstone of modern portfolio management. The differing characteristics of the varying asset classes provide risk-reducing benefits from diversification when they are aggregated into a total portfolio.

Asset Classes

The investable assets of the Foundation will be invested in the following general asset classes:

- New Zealand equities, incorporating a constrained allocation to Australian equities (recognising the close economic relationship with Australia and giving access to industries not well represented on the New Zealand market)
- Australian equities
- Global equities, focusing on developed markets
- Emerging market equities
- New Zealand Property, which can be sub-categorised into direct holdings and externally managed listed and unlisted property
- Global listed infrastructure, a subset of global equities (developed and emerging) focusing on companies deriving the majority of revenue from infrastructure activities
- Private equity and venture capital both directly and via managed offerings
- Alternatives, which can include allocations to hedge funds, forestry, unlisted infrastructure, commodities and opportunistic investments
- New Zealand bonds, which can be sub-categorised into sovereign and non-sovereign
- Global bonds focussing on developed markets, which can be sub-categorised into sovereign and non-sovereign
- Emerging market bonds
- Community Loans
- Cash

The Trustees have resolved to be cautious in allocating to absolute return funds.

The selection of investments within an asset class is typically delegated to external investment managers. This is subject to investment constraints outlined in the relevant investment management agreements and/or relevant product disclosure documents.

Strategic Asset Allocation

The Trustees have agreed that a target allocation of 40% to growth type assets is appropriate for the long-term target SAA, balancing the need to earn income to meet desired distribution levels and operational expenses with a desire to preserve and grow capital over time. More specifically the Trustees have adopted the following SAA (effective 31 August 2016).

Asset Class	Weight (%)	Benchmark	Weight (%)	Range (%)	Properties Growth (%)	Properties Defensive (%)
Managed (Liquid) Investments:						
Listed Equities	25	Trans-Tasman Equities[1]	7.0	5.5 – 8.5	100	
		Global Developed Market Equities[2]	15.7	13.0 – 18.5	100	
		Global Emerging Market Equities	2.3	1.8 – 2.8	120	-20
Listed Real Assets	3	Global Listed Infrastructure[3]	3.0	2.4 - 3.6	100	0
Total Listed Equities			**28.0**	**24.0 – 32.0**		
Liquid Alternatives	4	Hedge Fund of Funds[3]	4.0	3.2 – 4.8	60	40
Fixed Interest	42	NZ Bonds	15.5	13.0 - 18.0		100
		Global Bonds[3,4]	23.0	20.0 - 26.0		100
		Emerging Market Bonds[2]	3.5	2.8 – 4.2	50	50
Total Fixed Interest			**42.0**	**36.0 – 48.0**		
Cash	13	Cash	13.0	10.0 – 16.0		100
Sub-total			**87.0**			
Growth/ Defensive Mix					**32.0**	**55.0**
Direct (Illiquid) Investments:						
Property, Alternatives & Unlisted	15	NZ Direct Property	10.0	5 – 15.0	60	40
		Private Equity & Venture Capital	0.0	0 – 4.0	150	-50
		Unlisted Real Assets: Infrastructure[3]	3.0	0 – 5.0	60	40
Sub-total			**13.0**	**5.0-20.0**		
Growth/ Defensive Mix					**8.0**	**5.0**
Total			**100.0**		**40.0**	**60.0**
Growth Allocation[5]			**40.0**	**37.5 – 42.5**		

[1] The target split between New Zealand and Australian equities is 50:50. In practice this is achieved by allocating 70% to New Zealand managers with a Trans-Tasman mandate and the remaining 30% to managers with Australian only mandates as outlined in the investment structure section. An assumption is made that on average approximately 25% of the Trans-Tasman mandates are

invested in Australian stocks. The Trustees are comfortable with this approach. For the Trans-Tasman managers hedging of any currency exposure is at the discretion of the managers. The Australian Equities mandate is 50% hedged back to NZD.

[2] 50% hedged back to NZD

[3] 100% hedged back to NZD

[4] 25% of the Global Bond portfolio is currently allocated to a Global Short Duration Bond mandate. This mandate reflects a tactical decision of the Trustees and is subject to regular review.

[5] The overall allocation to growth assets is considered an important constraint. To recognise this the Trustees have determined range limits for the total growth asset allocation; the Trustees recognise that this range may lead to rebalancing from time to time despite all other sectors being within their respective ranges outlined above.

The SAA accounts for the current allocation to illiquid investments (including direct property, private equity, venture capital, unlisted infrastructure and other alternative investments), while noting that there is an expectation for the Private Equity and Venture Capital investments to wind down (or be sold) over time and be re-invested in the property and unlisted infrastructure funds. As a result, the Trustees recognise that it may take some time before strategy for the illiquid portfolio can be fully implemented.

At this stage the agreed SAA does not make an allowance for Community Loans, direct investments in local ventures and the Special Fund. However, the Trustees acknowledge the need to consider the allocations to the Community Loans and direct investment strategies when monitoring portfolio liquidity and the Foundation's ongoing operational requirements.

The SAA will be reviewed regularly (at least annually) to ensure it remains appropriate for the Foundation's purposes.

Community Loans

At present Community Loans are not considered as an asset class for SAA or performance monitoring purposes. It is noted that such loans are granted on concessional terms to charitable organisations and accordingly are not expected to generate returns at a market rate. It is also noted that Community Loans are illiquid and need to be included when assessing compliance with limits on the anticipated level of illiquid holdings in the portfolio. The Trustees have agreed that an allocation of up to 4% of the investable assets of the Foundation shall be made available for Community Loans. The Foundation maintains a Community Loans Policy which outlines the objectives, criteria and process for lending Rātā Foundation money to approved organisations.

Special Fund

In recognition of the particular liquidity requirements of the Special Fund, the Trustees have set aside cash and fixed interest assets to support the Special Fund, "the Special Fund Reserve". These assets will be drawn down to meet payments made under the terms of the Special Fund. It has been decided that the assets of the Special Fund will be considered independent of the strategic asset allocation pertaining to the remaining investment assets of the Foundation.

Currency Policy

Beliefs

- Currencies are difficult to forecast, especially in the near term
- Currency movements are episodic (sometimes trending) in the medium term and can exhibit significant randomness, as they are driven by factors that vary over time
- In the very long term, currencies have a tendency towards Purchasing Power Parity levels

Some currency exposure is useful as it:

- Achieves some diversification benefits
- Reduces the volatility of returns from overseas equities
- Hedges against the risk of high NZ inflation and a collapse in the NZ dollar
- Reduces the volatility of returns from overseas bonds and property

Strategy

The target overall level of foreign currency exposure for the Foundation's assets is 10% - 15% within which, the benchmark foreign exchange position (after tax) is:

- 50% hedging of Australian equities
- 50% hedging of global equities
- 100% hedging of global listed infrastructure
- 100% hedging of liquid alternatives
- 100% hedging of unlisted real assets: infrastructure
- 100% hedging of global fixed interest
- 50% hedging of emerging market bonds

Management

- Specialist currency management is appropriate
- Currency hedging has liquidity implications that should not be overlooked
- Where foreign currency hedging is used, the Trustees have elected to hedge their foreign currency exposure passively.

Currency Exposure

After taking advice from its Investment Advisor, the Trustees have determined their benchmark foreign exchange position as follows:

Asset Class	Weight (%)	Range (%)
Equities with foreign currency exposure (as a percentage of the global equity exposure).	50	40-60
Global Listed Infrastructure	100	N/A
Liquid Alternatives	100	N/A
Unlisted Real Assets: Infrastructure	100	N/A
Global Bonds	100	N/A
Emerging Market Bonds	50	40-60

Investment Structure

The Trustees' policy is that external investment professionals ("Investment Managers") will be appointed to manage the Fund, with the exception of that portion allocated to directly held New Zealand Property, which will be managed by a Property Manager or Managers and Internally

Managed Cash, which will be managed by the Foundation's Administration in accordance with this SIPO.

Investment Managers are appointed by the Trustees, on the advice of the Investment Advisor, after assessing a range of appropriately skilled managers available for the asset class in question. The Trustees may change Investment Managers from time to time as they see fit, on recommendation from the Investment Advisor, at the Trustees' sole discretion.

The Trustees have further determined that the funds will be managed under an active, sector specialist structure, in the expectation that, in aggregate, the manager structure will add to the benchmark return after fees. Outperformance expectations for each sector are specified in section 8.

The Trustees have determined that the allocations to Trans-Tasman Equities, Global Developed Market Equities, Property and Global Bonds will be managed according to the following mandates and maintained within the ranges outlined below:

Managers	Weight (%)	Range (%)
Trans-Tasman Equities	7.0	5.5 - 8.5
New Zealand focused core mandate	2.8	2.4 - 3.6
Trans-Tasman High Conviction mandate	2.1	1.8 - 2.7
Australian focused core mandate	2.1	1.8 - 2.7
Global Developed Market Equities	15.7	13.0 - 18.5
Broad Developed Markets	12.6	10.0 - 15.0
Low Volatility	3.1	2.5 - 3.7
Property	10	5.0 - 15.0
Direct Property - externally managed	2.5	0 - 5
Direct Property - Foundation managed	7.5	5 - 15
Global Bonds*	23.0	20.0 - 26.0
Global Aggregate Mandate 1	11.5	9.5 - 13.5
Global Aggregate Mandate 2	11.5	9.5 - 13.5

* 25% of the Global Bond portfolio is currently allocated to a Global Short Duration Bond mandate. This mandate reflects a tactical decision of the Trustees and is subject to regular review. This has been implemented by allocating half of one of the Global Aggregate Managers' mandates to the short duration strategy.

Rebalancing

On the advice of their Investment Advisor the Trustees have agreed protocols for rebalancing the assets from time to time to maintain compliance with the SAA.

- The exposures to the various asset classes will be monitored monthly by the Investment Advisor.
- The Fund will be rebalanced towards target weights and within the specified ranges when any asset class position is outside the applicable range in accordance with the agreed protocol.

- The regular cash flow requirements of the Foundation provide an opportunity to assist in rebalancing the Fund towards target weights, by sourcing the outflows from the overweight asset class(es) and directing any inflows to underweight asset class(es).
- Rebalancing can also be undertaken by selling overweight asset classes to fund underweight asset classes.
- For unlisted assets, there is an expectation that there will be neither drawdowns nor investments to rebalance the allocation. As a result, the allocation to these assets may from time to time lie outside the target weight with Trustees to be notified for sign-off as an exception.

The Trustees recognise that from time to time under exceptional circumstances or conditions it may be appropriate to entertain holding an asset allocation position outside the agreed ranges. Any such exceptions will be a decision for the Board of Trustees who will, in agreeing to entertain an exception, document the agreed process for reviewing that exception.

Furthermore the Trustees note that certain of the mandates allow investment managers to accommodate such exceptional circumstances, for example by holding additional cash within their portfolio.

Liquidity Policy

The Foundation requires liquidity to meet payment obligations that include:

- Community grants and loans
- Operational expenditure including expenditure for the direct New Zealand property portfolio
- Investment commitments, such as forward foreign exchange cover and calls on committed capital

The Trustees require a high degree of confidence that during any periods of extreme market volatility, liquidity demands can be met.

The Foundation's primary source of liquidity is its Cash investment. In principle, at least two years' worth of spending should be held in Cash and NZ Bond investments. Cash investments also play a role in the Trustees' investment strategy, providing a stable return with low expected volatility.

The Trustees' investment strategy supports the Foundation's liquidity requirements by predominantly investing in listed securities and limiting the total investment in illiquid investments.

Illiquid Investments

As a genuine long-term investor, the Trustees are in a position to benefit from the illiquidity premium, that is, the return premium expected to be derived from the Trustees' willingness to commit to an investment for a fixed long-term period.

Illiquid investments can take many forms, including direct property, private equity, unlisted funds (such as infrastructure) and forestry.

In addition to offering a (possible) return premium, these assets possess different risks to liquid or listed investments, typically have higher fees, present valuation challenges and require more intensive governance.

In addition the Trustees see value in providing Community Loans to enable charitable organisations to progress important initiatives that facilitate improved outcomes for our communities. It is noted that such loans are granted on concessional terms and accordingly are not expected to generate returns at a market rate. However, such loans are illiquid by nature and this should be taken into account in assessing the portfolio’s liquidity.

As a result, the Foundation's exposure to illiquid investments is restricted, in the first instance, to its allocations to Community Loans, Direct Property and Illiquid Alternatives (e.g. Private Equity, Venture Capital and Unlisted Infrastructure), up to a maximum of 20% of total investable assets.

In principle, the Trustees expect to hold up to all their Community Loans (a maximum of 4%) and Direct Property and Alternatives (a maximum of 15%) allocation in illiquid investments. However, from time to time (as opportunities arise), they may elect to hold either nothing, or the whole amount, in illiquid investments. In particular, the process of transitioning from the current illiquid portfolio to the long term target portfolio may require varying illiquid exposures over time.

Review

The appropriateness of the SAA will be formally reviewed from time to time (preferably annually) and kept under constant monitoring to reflect any fundamental changes in the investment environment and changes to the Trustees’ investment policy.

8

Responsible Investment Processes

United Nations Principles for Responsible Investment

In its fiduciary role the Foundation believes environmental, social and corporate governance (ESG) issues materially affect the performance of investment portfolios and in support of these beliefs the Foundation is a signatory to the United Nations Principles for Responsible Investment (UNPRI). The UNPRI embodies an internationally accepted framework for investors to manage ESG issues in a manner consistent with improving long-term investment returns. By becoming a signatory, the Rata Foundation will, over time, apply the following principles:

1. Incorporate ESG issues into investment analysis and decision-making processes.

2. Be active owners and incorporate ESG issues into its ownership policies and practices.

3. Seek appropriate disclosure on ESG issues by the entities in which it is invested.

4. Promote acceptance and implementation of the Principles within the investment industry.

5. Work together with other signatories to enhance its effectiveness in implementing the Principles.

6. Report on its activities and progress towards implementing the Principles.

Manager and stock selection

Investment managers are selected by the Foundation with consideration given to their beliefs and practices relating to ESG issues. The Foundation is cognisant of the fact many of the managers selected by the Foundation see the greatest investment promise in companies with enlightened management that recognise sustainable practices and sound employment policies are in the best long-term interest of their companies and shareholders. The rising importance investment managers and company management each give to these policies is leading to a convergence between the portfolios of social investors and mainstream investors.

The Foundation may hold investments through pooled funds as an effective and cost efficient means of accessing some global markets. For such funds the Foundation recognises it will have no influence over the structure of the product or securities held in the fund.

Voting

Among the various avenues to try to generate social return through investing, the Foundation favours proxy voting aligned with its core mission. This strategy appears to have an increasing influence on management decisions, is unlikely to degrade investment returns, and can be accomplished with minimal administrative burden.

All investment managers must actively vote using guidelines developed around best practice fiduciary standards and may use the expertise of specialist providers of research and proxy voting services.

Exclusions

In general, the Foundation prefers engagement as the best way of getting companies to improve their behaviour, rather than exclusion.

Rātā Foundation's Responsible Investment Exclusions policies are guided by:
1. Our purpose, vision and investment beliefs
2. Our stakeholders' perspectives
3. Our fiduciary responsibilities
4. Compliance with the laws of New Zealand

Our purpose, vision and investment beliefs

Our purpose is to support and be a catalyst for strong, connected, healthy, happy, prosperous communities.

At Rātā Foundation, we aspire to be a highly respected community leader, collaborator, facilitator and investor working for and on behalf of the community.

In addition, we believe taking a sustainable investment view is more likely to create and preserve long term investment capital. Taken together, our purpose, vision and investment beliefs form the basis for our Responsible Investment Exclusions Policy.

Responsible Investment Exclusions Policy

Consistent with our purpose, vision and investment beliefs, the Foundation may exclude investments in companies that do substantial and irreparable harm to society or the environment, provided it does not materially worsen the diversification or robustness of the total portfolio, and can be effectively managed.

In determining whether to exclude any investment on this basis, Rātā Foundation will consider:
- Whether excluding the investment supports our purpose to support and be a catalyst for strong, connected, healthy, happy, prosperous communities
- Whether New Zealand legislation, regulation or government commitments prohibit the product or activity or aim to severely curtail or make obsolete such products or activities in the foreseeable future
- The impact of the exclusion or ongoing investment on the expected investment risk and returns
- Our stakeholders perspectives
- The impact of exclusion or ongoing investment on the reputation of Rātā and our stakeholders

• The efficacy of other responsible investment approaches in addressing the issue of concern. Exclusion will only be considered as a last resort.

As of July 2017, the Foundation has determined that the following products should be excluded on this basis:
• Companies manufacturing cluster munitions[10], nuclear explosive devices[11], or tobacco[12].

Rātā Foundation may consider additional products or services for exclusion in future against this policy framework.

Implementation

The Foundation does not manage securities directly, but selects specialist investment managers for each sector.

Rātā Foundation invests in Collective Investment Vehicles (CIVs), where the investments are pooled with those of other investors. This includes Exchange Traded Funds (ETFs). Use of CIVs enables cost-effective access to a diversified portfolio of assets. The Foundation does not control or set the guidelines for these investments. As such, it is possible the Foundation may have an indirect exposure to an excluded company. However, Rātā Foundation will, where commercially prudent and cost effective, apply this exclusions framework to its choice of Collective Investment Vehicles.

Rātā Foundation relies on a third party provider of ESG Research in determining companies to be excluded on this basis.

Dialogue

The Foundation encourages dialogue and discussion on any issues raised through a process of engagement. Where appropriate the Foundation may participate in collaborative engagement with other institutional investors via the UNPRI.

The Foundation stays abreast of developing practices in responsible investment, monitors relevant literature and research.

Review

The Trustees realise the implementation of the PRI is an activity which is ongoing, complex and constantly evolving and as such the Trustees' policy related to PRI and associated ESG issues needs to be regularly reviewed. Any implementation of these Principles shall be consistent with the Trustees' fiduciary responsibilities to deliver the best possible risk-adjusted returns over the long term.

---

[10] Cluster Munitions Convention signed by New Zealand in 2008

[11] New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987

[12] World Health Organisation (WHO) Framework Convention on Tobacco Control (FCTC) signed and ratified by New Zealand as one of 168 signatory countries. The objective of the FCTC is to *reduce continually and substantially the prevalence of tobacco use and exposure to tobacco smoke*, which successive NZ Governments have introduced legislation to achieve, including Smoke-free Environments Act, fiscal controls i.e. taxation, and Ministry of Health programmes, in particular "Clearing the Smoke".

Framework

Governance, Policy and Strategy	**BELIEFS, VALUES, PHILOSOPHY**				
Standards and Benchmarks	Integration P1	Ownership P2	Disclosure P3	Best Practice and Collaboration P4 and 5	Communication P6
	UNPRI (Principles 1-6)				
	- Good practice standards				
Activities and Procedures	• Incorporating RI and ESG into the Foundation's SIPO • Making RI and ESG a factor in Investment advisor and manager due diligence and monitoring	• Improving weighted manager ESG score • Requiring managers to vote on all resolutions • Exclusions	• Requiring managers to disclose their ESG and voting activity in regular reports and presentations	• Supporting and participating in relevant networks • Encouraging managers and advisors to sign-up to the UNPRI • Communicating the Foundation's commitment to managers and asking for their policies	• Public reporting of RI activity in the annual report • Making RI policies and activity public via the Foundation's website • Including RI and ESG in stakeholder engagement

9

Investment Performance Monitoring

The principal goals of performance monitoring are to:

- Assess the extent to which the Trustees' investment objectives are being achieved;
- Compare the performance of Trustees' appointed Investment Managers against benchmark indices and the performance of other relevant Investment Managers;
- Ascertain the existence of any particular weaknesses in the Investment Manager or the Investment Managers' product(s) utilised; and
- Allow the Trustees to continually assess the ability of the Investment Managers to successfully meet the Trustees' objectives.

Fund Performance

Fund performance will be monitored by the Trustees in relation to the Benchmark Portfolio. The Benchmark Portfolio is a performance monitoring tool intended to reflect the Trustees' adopted SAA.

Benchmarks

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a whole of Fund level, at an asset class level or at the manager level. The general principle of benchmarks at an asset class or manager level is they should be replicable – that is, it should be possible to create a portfolio of securities which mirrors (or at least very closely resembles) that used within the benchmark.

At the asset class level, benchmarks provide an effective way of measuring the skill with which the manager selects securities within the portfolio being managed.

The risk and return characteristics of the benchmarks used for the Fund as a whole and for individual asset classes must be broadly consistent with those considered in the analysis used to construct the SAA.

The benchmarks for individual asset classes are as follows:

Asset Class	Index
Trans-Tasman Equities	50% S&P/NZX 50 Index without Imputation Credits and 50% S&P ASX200 Accumulation Index (50% hedged to NZD)
Global Developed Equities	MSCI World Accumulation Index with net dividends reinvested (50% hedged to NZD)
Emerging Market Equities	MSCI Emerging Markets Free Float Index
Listed Real Assets - Infrastructure	FTSE Global Core 50/50 Infrastructure Index (100% hedged to NZD)
Direct NZ Property	IPD Quarterly NZ Property Index (lagged)
Private Equity & Venture Capital	S&P/NZX 90-day Bank Bill Index plus 3%
Unlisted Real Assets – Infrastructure	S&P/NZX 90-day Bank Bill Index plus 3%
Alternatives – Hedge Funds	HFRI FOF: Market Defensive Index (100% hedged to NZD)
New Zealand Bonds	S&P/NZX NZ Government Stock Index
Global Bonds	Bloomberg Barclays Global Aggregate Index (100% hedged to NZD)
Emerging Market Bonds	25% JP Morgan ELMI+ (Emerging Local Markets Index Plus) NZD unhedged : 25% JP Morgan GBI-EM GD (Government Bond Index – Emerging Markets Global Diversified) NZD unhedged : 50% JP Morgan EMBI GD (Emerging Markets Bond Index Global Diversified) USD
Cash	S&P/NZX NZ 90-day Bank Bill Index

NZX = New Zealand Stock Exchange

ASX = Australian Stock Exchange

MSCI = Morgan Stanley Capital International

IPD = Investment Property Databank

S&P = Standard & Poors

S&P/NZX 90-day Bank Bill index is the standard market benchmark for NZ bank bill rates.

Investment Manager Performance

- Returns achieved by the appointed Investment Managers will be evaluated by the Trustees in relation to both the Manager's objectives and the Fund's objectives. Investment Manager returns will also be compared with those of a suitable peer group, where available, such as a group of other comparable investment fund managers.
- Each Investment Manager will report at least quarterly in accordance with a format agreed with the Trustees.
- Investment Manager performance will be monitored at least quarterly, with a view to a continuing evaluation on the basis of rolling three year results.
- Investment Managers' roles will be reviewed by the Trustees on a regular basis (preferably annually). Matters to be taken into account in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the Investment Managers' continuing ability to meet the applicable investment objective.
- Performance (before tax and fees) for individual asset classes will be measured against the benchmarks above or similar indices, if applicable.

Sector Objectives

Asset Class	Objective per annum (measured over three year rolling periods)
Trans-Tasman Equities	To exceed the performance benchmark by 2.25%
Global Developed Equities	To exceed the performance benchmark by 1.50%
Emerging Market Equities	To exceed the performance benchmark by 1.50%
Listed Real Assets - Infrastructure	To exceed the performance benchmark by 1.00%
Direct Property	To exceed the performance benchmark
Private Equity & Venture Capital	To exceed the performance benchmark
Alternatives[13]	To exceed the performance benchmark
New Zealand Bonds	To exceed the performance benchmark by 0.50%
Global Bonds	To exceed the performance benchmark by 0.50%
Emerging Market Bonds	To exceed the performance benchmark by 0.75%
Cash	To exceed the performance benchmark by 0.20%

[13] Alternative assets includes, amongst other things, hedge funds, forestry, unlisted infrastructure and commodities.

10

Distributions and Reserves

Volatility of Returns

The Trustees recognise that their investment strategy contemplates an asset allocation which is likely to generate returns that demonstrate volatility over the short term. In contrast, the Trustees expect their distribution requirements to remain relatively stable over time[14].

In order to account for investment risk or volatility, the assets of the Foundation are to be invested in such a manner as to achieve over the medium term a level of return in order to meet:

1. The Foundation's distribution and operational requirements in any one year
2. The desire to maintain the Real Capital Base[15]
3. The desire for building a (income) reserve fund to a level which would provide reasonable protection in years with low or negative overall investment returns
4. The desire to grow the Foundation's Real Capital Base

Fluctuations in investment returns directly impact the level of income available for distribution, and also the Real Capital Base and hence the ability to grow distributions over time.

Capital Base

The **Capital Base** of the Foundation was set at $371.422m as at 31 December 1996. In February 2013 a Special Fund of $25 million was established as a response to the Canterbury Earthquakes. This reduced the Capital Base by $17.615 million to $353.807million.

The Trustees have a desire to maintain the Capital Base in real terms and the Inflation Reserve is the amount required to achieve that. The balance of the $25m Special Fund was funded from the Inflation Reserve.

---

[14] This excludes the distribution of the Special Fund created in 2013. Distributions from the Special Fund are anticipated to be paid out in addition to regular distributions over a period of several years from 2013.

[15] The "Real Capital Base" is the sum of the Capital Base and the Inflation Reserve adjusted to allow for the creation of the Special Fund.

Together the Capital Base and Inflation Reserve amounts represent the Real Capital Base.

Distribution Policy[16]

The Foundation requires funds for distribution on a regular basis. The Trustees' current policy is to distribute 4% of the lesser of:

- The Real Capital Base as at 31 March of the previous year; or
- The unaudited asset value as at 31 December of the previous year.

Investment income from sources such as dividends, coupon payments, rent, distributions, and realised and unrealised gains less operating expenses is defined as the Foundation's Annual Income for distribution purposes.

Annual Income (net of operating costs) will be allocated (in order) as follows:

1. The amount required to meet distribution payments
2. An amount will be credited to the Inflation Reserve to maintain the Real Capital Base
3. Any remaining income will be credited to / debited from the Accumulated Income Reserve to help offset income fluctuations in future periods

In the event that Annual Income in any year is insufficient to meet distribution requirements this will be reflected as a deduction from the Accumulated Income Reserve, which may from time to time be negative.

Special Fund distributions will be deducted from the Special Fund Reserve.

Reserves Policy

The Foundation will establish the following Reserves to facilitate the achievement of its Distribution Policy:

Capital Base and Inflation Reserve

The Capital Base and Inflation Reserve shall be reduced proportionally in the event of the Trustees agreeing to make a distribution or distributions from the Foundation's Real Capital Base. In addition the Inflation Reserve shall be increased by an amount equal to the sum of the Capital Base plus the Inflation Reserve multiplied by the annual percentage change in the CPI. This ensures the Real Capital Base retains its purchasing power over time. If Income is insufficient to make this adjustment, the Accumulated Income Reserve should be reduced accordingly and may from time to time be negative.

Accumulated Income Reserve

Each year, any excess Income, after distributions and the adjustment to the Real Capital Base, shall be credited to the Accumulated Income Reserve. This Reserve will help offset income fluctuations in future periods. In particular, this Reserve can be used to meet distribution

[16] This distribution policy is the intended long term policy. Due to the impact of the seismic events of 2010 and 2011 additional distributions have been made since these events due to increased need.

requirements during years with low or negative investment returns without recourse to the Real Capital Base.

There is no fixed target for the value of the Accumulated Income Reserve, but in the normal course of events, a balance between two and four year's annual spend (Grants plus operational expenses) is thought to provide sufficient comfort to the Board that it will be able to maintain its Grants policy through a full investment cycle.

An Accumulated Income Reserve that exceeds (for more than two consecutive quarters) four year's annual spend is a signal to the Board that it may be appropriate (but it is not necessary) to review its position. In the event that the Board elects to do so, it will take advice as to the appropriate course of action, which may include adjusting the investment strategy, increasing grants, increasing the Capital Base and/or other options.

However, in the event the Board elects to reduce the balance of the Accumulated Income Reserve for any reason, any reduction is limited to the balance in excess of four year's annual Spend.

The Accumulated Income Reserve can be used to meet inflation proofing and grants in the event of insufficient investment income in any one year. As a result, it is contemplated that the Accumulated Income Reserve may be negative (although it is acknowledged that this is not an ideal outcome).

A negative Accumulated Income Reserve that exceeds (for more than two consecutive quarters) one year's spend is a signal to the Board that it may be appropriate (but it is not necessary) to review its position. In the event that the Board elects to do so, it will take advice as to the appropriate course of action, which may include adjusting the investment strategy, decreasing grants and/or other options.

Special Fund Reserve

The Special Fund Reserve was created in 2013 by proportionate deductions from the Foundation's Capital Base and Inflation Reserve. Whilst the Special Fund continues in operation, Special Fund distributions will be deducted from the Special Fund Reserve.

Appendix

Appendix A: Risk Management Policies

Investments

The table below describes the key risks associated with the different assets the Foundation may invest in.

Asset	Example	Key risks
Cash and fixed interest	On call and term deposits, bonds and fixed interest assets both in New Zealand and overseas.	• There may be delays or failure to repay principal and/or interest. • The return on cash and fixed interest investments may be less than inflation. • Numerous issuer-specific issues may arise, and investors' attitudes to the issuer's future may change. • Investors' attitudes to fixed interest markets as a whole may change rapidly and frequently, with a corresponding effect on asset values. • There may be fluctuations in interest rates which can result in capital losses.
Shares and Property	Shares in New Zealand or international companies and commercial property investments in New Zealand.	• The company, property or investment fund performs poorly. • Dividends are not paid. • As an investor's ownership interest in shares and similar investments is ranked lower than the money owed to the company's creditors and fixed interest holders, a higher degree of risk attaches to these investments. • The share or fund price may drop below the purchase price or even to zero.

Asset	Example	Key risks
		• There may be delays or failure to repay investments owing to liquidity constraints. • Numerous company/property-specific issues may arise, and investors' attitudes to the company's future may change. • Investors' attitudes to share markets as a whole may change rapidly and frequently with a corresponding effect on asset values.
Alternative Assets	Infrastructure and hedge funds.	• These types of investments are generally less liquid and a ready market for sale may not exist. • The investments may include derivatives exposing the investments to higher risk.

The Trustees mitigate the risks set out in the above table by spreading the investments held across markets and diversifying investment across a range of investment types. This helps reduce risk because if one asset type performs poorly, this is usually offset by other asset types performing better.

Management risks
The Trustees appoint investment managers, who, in consultation with the Investment Advisor, have been deemed to possess the skills, resources and determination needed to produce superior investment returns.

The table below describes the key risks associated with the way the external investment managers manage the Foundation's investment assets:

Item	Key risks	How the Trustees mitigates these risks
Investment approach	• The Foundation's active investment management approach may lead to choosing investment managers or investments that underperform, or it may mistime market changes resulting in lower returns.	• The Foundation, with the Advisor's advice, sources investment managers it considers to have the capability, skill and conviction to produce superior returns. • The Trustee's continuously monitor the performance of the selected investment managers to ensure they are adhering to the guidelines and objectives set.
Market risk (among the components of market risk are such risks as currency risk, derivatives risk and interest rate risk)	• Economic, business, technological, political, tax or regulatory conditions and even market sentiment can (and do) change affecting overall markets as well as the investment options and individual investments.	• The Foundation seeks advice from its Advisor to form a view on these matters. • Some managers have been selected for their ability to protect asset values in times of adverse market conditions.

Item	Key risks	How the Trustees mitigates these risks
Currency risk	• When investing in international assets that are denominated in foreign currencies there is a risk that those foreign currencies fall in value or rise in value, affecting the value of those assets from a New Zealand perspective.	• The Trustees have a currency exposure policy whereby the Foundation fully hedges all asset classes, with the exception of Overseas Equities and Emerging Market Debt, which are 50% hedged.
Derivatives	• Employing derivative transactions involves speculation as to how the value of an underlying asset will rise and fall over time. Employing derivatives can potentially leave the Scheme open to large scale losses.	• This SIPO limits the use of derivatives and describes how derivatives are to be used, and when.
Interest rate risk	• Movements in interest rates may adversely affect the price of the investment option's investments and impact returns (for example, the value of a bond will typically decline if interest rates rise).	• The investment managers engaged use derivatives and duration of fixed interest investments to manage risk. • The Foundation's investment strategy currently includes an allocation to a short duration strategy designed to mitigate interest rate risk.
Credit Risk	• A counterparty to a transaction may fail to perform its contractual obligations or suffer a credit ratings downgrade affecting the value of a particular investment.	• Investments are diversified over a wide range of asset classes, companies, industries and maturities. • Bond investments are restricted to investment grade (or equivalent) or better. • Exposure to any one issuer is restricted.
Operational risk	• Operational risk is the risk of loss from inadequate or failed internal processes, people or systems, or from external factors.	• Professional investment managers are used, with the exception of NZ Cash and NZ Property. • An independent custodian is used to hold and value most assets. • The Trustees require regular reporting from the Investment Managers, Custodian and Investment Advisor. • Two signatures are required for any cash flow transactions.

Item	Key risks	How the Trustees mitigates these risks
Liquidity risk	• Liquidity risk has two components. Firstly, the risk of the Foundation having difficulty in meeting its obligations, e.g. where there is a mismatch between when investments are maturing and the amounts required to fund grants. Secondly, the risk of investment managers acquiring investments that cannot be sold or otherwise hedged.	• This SiPO sets out a liquidity policy whereby the investment options are predominantly invested in liquid assets (able to be traded on a recognised market). • The Special Reserve is comprised entirely of Cash and the Main Portfolio includes a meaningful allocation to Cash. • Where pooled vehicles are used, those using daily pricing are preferred.
Concentration risk	• The accumulation of assets in a single asset class, in a particular geographic location, or with high exposure to a specific industry sector results in concentration risk.	• The Trustees' SAA and SIPO restrictions aim to control against high concentration risk by spreading assets widely across a range of dimensions. Geographic and industry risk within the direct property portfolio are managed under the supervision of the relevant Board committee.

Community Loans

Community Loan Risk	• The Community Loan Risk is the chance of a default on interest payments and/or capital repayments from charitable organisations that hold a loan from the Foundation.	• The Foundation's Chief Financial Officer reports regularly to the Trustees in accordance with the Community Loan Policy. Where possible loans are secured over assets and/or income streams.

Appendix

Appendix B: Glossary

Absolute Return Funds/Strategies
Investment strategies targeting a positive return in absolute terms rather than relative to an index or other benchmark. May also be referred to as "cash plus" funds.

Alternative Investments
Investments which do not fit into the mainstream areas of equities, bonds and property and which normally form a small portion of portfolios. Examples include hedge funds, forestry, commodities and works of art.

ASX
Australian Stock Exchange

ASX200
The largest 200 stocks, ranked by market capitalisation, listed on the Australian stock exchange.

AUD
Australian Dollar

Capitalisation
Total market value of securities issued by a company, industry or sector. It is calculated by multiplying the market price per share by the number of shares issued.

Commodities
Any raw materials, including for example oil, precious metals, coffee, wheat and wool. Can be invested in directly, but more likely to be via derivatives.

Consumer Price Index (CPI)
A measurement of prices for goods and services. This indicator is used to determine the rate of inflation.

Derivative
Investment whose value derives from the performance of some other asset, for example, stock market indices, currencies or commodities.

Developed Markets
Developed markets are those countries that are thought to be the most developed and therefore less risky. As at 30 September 2016 MSCI Barra classified the following 23 countries as developed markets: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, United States.

EMBI
Emerging Market Bond Index

Emerging Markets
Emerging markets are nations with social or business activity in the process of rapid growth and industrialization. As at 30 September 2016 MSCI Barra classified the following 23 countries as emerging markets: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, South Korea, Taiwan, Thailand, Turkey and United Arab Emirates.

Environmental, Social and Corporate Governance (ESG)
Environmental, social and corporate governance factors that some investors consider before investment in a company.

Floating Rate Note (FRN)
Bond or loan interest which varies in line with short term interest rates.

GBP
Great British Pound

Hedge Fund
A fund that seeks to generate investment returns by using non-traditional investment strategies, utilising mechanisms such as short selling, leverage, programme trading, arbitrage, and tools such as options, futures, swaps, and forwards (derivatives in general).

Imputation credits
Dividend imputation is a corporate tax system in which some or all of the tax paid by a company may be attributed, or imputed, to the shareholders by way of a tax credit to reduce the income tax payable on a distribution. It reduces or eliminates the tax disadvantages of operating a business in a country.

Long
Term used to describe the purchase of a financial asset e.g. 'take a long position/go long'.

Mortgage Backed Securities (MBS)
Debt securities supported or backed by mortgages.

MSCI
Morgan Stanley Capital Index

NZD
New Zealand Dollar

NZX
New Zealand Stock Exchange

PIR
Prescribed Investor Rate

Portfolio Investment Entity (PIE)
A particular type of pooled investment structure.

PRI
Principles of Responsible Investment

Real rate of return
Nominal rate of return adjusted for inflation

S&P/NZX 50
The largest 50 stocks, ranked by market capitalisation, listed on the New Zealand stock exchange.

Short
Term used to describe a seller of a financial asset who is obliged to buy back the asset e.g. 'take a short position/go short'.

SRI
Socially Responsible Investment

Statement of Investment Policy and Objectives (SIPO)
Formal statement frequently produced by trustees specifying their objectives, the nature of the investment mandate, permissible trading ranges for the main asset classes, constraints, returns expectations and reporting arrangements.

Stock Exchange
Market for trading in securities.

Strategic Asset Allocation (SAA)
Development of a long term asset mix that is expected to meet the investor's return objectives with an acceptable level of risk.

S&P
Standard and Poors

T (Treasury) Bills
A short-term debt obligation backed by the government with a maturity of less than one year.

Tactical Asset Allocation (TAA)

Positioning the investment portfolio across asset classes so as to take advantage of opportunities to add value that may exist from time to time in the market. This may necessitate holding an exposure for a short time outside of the approved SAA asset ranges.

UNPRI
United Nations Principles of Responsible Investment

USD
United States Dollar

Appendix

Appendix C: Version Control

1. Original Document.

2. Revision 1. Adopted by resolution dated 30 June 2008.

3. Revision 2. Dated: May 2011. Adviser – Mercer.

4. Revision 3. Dated 2 December 2013 Revised internally based on Mercer document.

5. Revision 4. Dated June 2014 Revised by Mercer to incorporate interim strategic asset allocation.

6. Revision 5. Dated January 2015 Revised by Mercer to incorporate changes to the strategic rebalancing ranges and a number of other minor amendments.

7. Revision 6. Dated December 2016 Revised by Mercer to incorporate the name change (to Rātā Foundation) and the new strategic asset allocation adopted in September 2016. Also includes a number of other minor amendments.

8. Revision 7. Dated July 2017 Revised by Rata to incorporate Reserving Policy, Investment Beliefs and replace Responsible Investment Processes, along with other minor amendments.

Rātā Foundation

Rātā Foundation
Level 1, 12 Hazeldean Road
Hazeldean Business Park
Christchurch

P O Box 1440
Christchurch Mail Centre
Christchurch 8140

Tel: 03 335 0305
Free: 0508 266 878
Fax: 03 335 0308
Web: www.ratafoundation.org.nz