



# Statement of Investment Policy & Objectives

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## General Information

The Advance Ashburton Community Foundation, was established by Trust Deed 4 June 2003 which was subsequently updated in 2017.

## Scope of this Investment Policy

This statement reflects the investment policy, objectives, and constraints of the Foundation.

## Purpose of Investment Policy

The purpose of this statement is to:

1. Define and assign responsibilities for management, including fund management of the Foundation's investments.
2. Establish the investment goals and objectives of the Foundation.
3. Provide guidance and limitations to the Investment Committee and the Fund Manager regarding the Foundation's investments.

## Authority & Responsibilities of the Board

The Board is responsible for directing and monitoring the Foundation's Investment Policies. This includes, but is not limited to:

1. Appointing an Investment Committee that will be accountable for overseeing implementation of investment policies on behalf of the Board.
2. Appointing a Fund Manager who will manage the investment portfolio externally through a Discretionary Investment Management Service ( DIMS)
3. Establish investment objectives, policies, and guidelines, which will guide investment of the Foundation's assets.

## Responsibility of the Investment Committee

The Investment Committee is required to assist the Board to discharge its responsibilities relative to the management of the Foundations investment portfolio, and cognisant of the Board responsibilities for donor's funds.

On an ongoing basis the Investment Committee will:

- Understand and set a long term strategy for investments
- Maintain and review the Statement of Investment Policy and Objectives (SIPO) and make recommendations relating to such to the Foundations Board.
- Ensure the Fund Manager adheres to the SIPO
- Have full responsibility for direct property investments including reviewing current positions and seeking out new opportunities.
- Maintain asset allocation.
- Maintain guidance to the fund manager regarding 'forbidden' stocks
- Make recommendations to the Foundations Board who the Fund Manager will be.
- Review annually the performance of the Fund Manager
- Meet the reporting requirements of the Terms of Reference for the Investment Committee
- Inform the Board of any information considered material; particularly in relation to significant changes to economic outlook, investment strategy, or any other factors, which have the potential to impact the Foundation's long-term investment objectives.

## **Authority and Responsibilities of Fund Manager**

The Fund Manager will be responsible for

- Managing the Investment Portfolio externally through a Discretionary Investment Management Service (DIMS).
- The portfolio manager will have full discretion relating to the daily buy/sell decisions.
- The portfolio manager will adhere to the asset allocation set by the Investment Committee.
- The portfolio manager will not purchase stocks forbidden within the SIPO.
- Disclosing to the Committee when and if acting as lead broker for a new investment issue.

The Fund Manager will report to the Committee as follows:

- A monthly one page summary including valuation, transaction summary and a brief overview of markets.
- Quarterly meeting with the Investment Committee to review the portfolio and respond to queries. Reports to include a portfolio valuation and return.
- An annual Income and Tax Summary, plus a portfolio return with comparison to an agreed benchmark.
- The Fund Manager will be available for discussions with correspondence cc'ed to all Committee members.

## **General Investment Principles**

1. All investments shall be made solely for the benefit of the Foundation.
2. Foundation assets shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the investment of assets for an organisation of like character and with like objectives.
3. Investment of Foundation assets shall be diversified to minimize the risk of significant losses.

## **Investment Management Policy**

1. **Preservation of Capital.** The Investment Committee shall make reasonable efforts to preserve capital, overall, even though losses may occur in individual securities and in certain asset classes in the short to medium term (less than 5 years).
2. **Risk Aversion.** Although reasonable risk is necessary to produce long-term investment results meeting the Foundation's objectives, the

Investment Committee is to make every reasonable effort to control risk.

3. **Adherence to Investment Discipline** –The Investment Committee is expected to adhere to this Statement of Investment Policy.

## **Investment Objectives**

The primary objective of the investment of Foundation assets shall be to achieve a return from a portfolio of securities detailed in the schedule of Authorised Investments.

The Foundation is defined as a "Growth Investor" preferring greater exposure to sharemarkets and property with a smaller fixed interest component.

As a growth investor the Foundation understands that its investment portfolio may lose value for extended periods in the course of seeking capital appreciation over time.

The Foundation's specific investment objectives are:

1. The fund will endeavour to generate sufficient returns to cover annual distributions of 3% to 6% of the value of the portfolio, plus 1% pa of the value of the portfolio to meet administration costs, and sufficient to inflation proof donors funds.
2. It is expected that Asset Allocation is such that negative returns (including Fund income) in any one calendar year are infrequent (e.g. estimated to be 1 year in 4-5 years for a "Growth" portfolio).
3. Maintain an overall level of risk in the portfolio that over the long -term is consistent with a growth portfolio. The Fund Manager shall compare the

Foundation's return volatility (standard deviation of returns) against an appropriate benchmark. The volatility of returns, defined as standard deviation, is targeted to be between 5-10%.

4. Maintain a "liquid cash" equivalent of 50% operating budget and 50% of annual grants (including unallocated funds carried forward from previous years) in the current financial year. "Liquid cash" includes bank current accounts, bank call accounts, bank term deposits and bonds maturing within 90 days.

**Asset Allocation**

1. As a growth investor the Investment Committee has determined that the total portfolio target is 80% in growth assets and 20% in income assets with an upside tolerance of 2%. These targets should be reviewed annually.
2. A monthly asset allocation report will be provided to the board based on the following table. Assets held for specific purposes are excluded.

Asset Class	Benchmark	Targeted Ranges
Equities		40-50%
Property*		20-30%
Property-Listed		5-15%
Property-Direct		15-20%
Growth	80%	80%
Fixed Interest		15-20%
Cash/TDs		0-5%
Income **	20%	20%
Total	100%	

\* The combined upper limit for both property classes is not to exceed 30%.

\*\* At no time is "Liquid Assets" to be less than the amount referred to in Investment Objective 4 above.

## **Income**

The Board may periodically provide the Investment Committee and Fund Manager with an estimate of expected income requirements (if any).

## **Marketability of Assets**

Subject to the Investment Guidelines below, the Foundation's investments held in the Fund Manager's custody account shall be in liquid securities, defined as securities that can be transacted quickly and efficiently with minimal impact on market price.

Beyond the Fund Manager's portfolio the Foundation may invest in assets with low liquidity such as syndicated property. The exposure to such assets should not exceed 20% of the Foundations investment assets.

## Investment Guidelines

### Authorised Investments

1. Cash Equivalents
  - a. Call or Term Deposits with any of the following five New Zealand Registered Banks: ANZ, ASB, BNZ, Rabobank, Westpac.
  - b. Call or Term Deposits with Heartland Bank up to a total combined limit for all entities in the Advance Ashburton group of \$500,000.
2. Fixed Income Securities
  - a. Government Bonds
  - b. Local Authority Bonds
  - c. Registered Banks
  - d. Corporate Bonds & Hybrids
  - e. Preference Shares
  - f. Unit Associations (investing in any of the above Fixed Income securities or Cash Equivalents)
  - g. Finance Company Debentures.
3. Equity and Property Securities
  - a. Listed Property Trusts
  - b. Common Stocks
  - c. Exchange Traded Funds
  - d. Passive Unit Associations (not actively managed) investing in any of the above equity and property securities.

### Fixed Interest Portfolio Guidelines

Bond type	SIPO compliance
Senior, unsubordinated	> 60%
Government related subordinated	< 25%
Subordinated Investment Grade	< 25%
Subordinated Sub-Investment Grade	< 25%
Rateset risk	< 15%
Average credit rating	BBB- or better

### Fixed Interest Investment Restrictions

There is no maximum exposure for any one entity in the portion of the portfolio allocated to Fixed interest, however issuer exposures are required to be detailed in regular reporting

In addition, the portion of the portfolio allocated to Fixed Interest is required to achieve a minimum weighted-average credit quality of investment grade,

which is a minimum numerical score of 11 or a minimum alpha grade of BBB-

Each security is allocated an alpha (letter) grade which corresponds to a numerical value; the market weighted of value each security within the Fixed Interest portion of the portfolio is multiplied by its numerical credit score in order to solve for a weighted-average numerical score for the portfolio. The weighted-average numerical score is rounded down to convert to a letter score, also per the table below.

AAA = 1	A = 8
AAA- = 2	BBB+ = 9
AA+ = 3	BBB = 10
AA = 4	BBB- = 11
AA- = 5	BB+ = 12
A+ = 6	BB = 13
A = 7	BB- = 14

### Direct Property Guidelines

	Maximum exposure (as a % of total portfolio)
Any one property whether owned individually or part of a syndicate	10% + 2% Upside
Diversified Property Portfolio Syndicate	15% + 2% Upside

### **Prohibited Securities**

Prohibited securities, investment and/or financial instruments include the following:

1. Commodities and Futures Contracts
2. Highly leveraged hedge funds

3. Companies whose principal businesses operate in the following industries:
- Tobacco products
  - Pornography
  - Alcoholic beverages
  - Prostitution
  - Gambling
  - Armaments/Weapons

An exception to these restrictions shall apply if a donor gifts investments to the foundation in any of the above mentioned industries with the specific instruction that they shall not be sold and the Trustees agree to abide by the donor's instructions.

4. Structured credit
5. Notes and/or structured products which include a derivative component
6. Private equity, mezzanine, Venture Capital and other unlisted Funds.

#### Prohibited Transactions

Prohibited transactions include the following:

1. Short Selling
2. Margin transactions
3. Direct Foreign Currency Speculation
4. Derivatives

#### Investment Policy Review

The Board intend to review this Statement at least every 2 years or more frequently at their sole discretion.

This statement has been reviewed and approved by the Board of Advance Ashburton Community Foundation and certified by:

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Trustee

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Trustee

Date: