Rātā Foundation

Statement of Investment Policy and Objectives

Adopted by the Trustees

On: 26/10/2022

Signed: C W Whittington

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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.

Purpose

This document establishes the framework set by the Trustees of the Foundation 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.

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 its current level of $353.807million.

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

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 after investment management fees and operational costs
- 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 Principles of Responsible Investment (PRI)

The Trustees have appointed an Investment Advisor to help assist the Trustees to develop their investment strategy and policies and may appoint other specialist advisors from time to time considered necessary for the prudent oversight of the Foundation's investment portfolio.

Performance Objective

The current objective is a real return after investment and operating expenses (and tax, if any) of at least 3.75% per annum over rolling ten year periods. This is closely linked to the Foundation's Distribution Policy. The investment strategy is designed to achieve this objective. The appropriateness of the strategy is formally reviewed at least once every three years or more often if material changes in market conditions warrant.

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.

Effective Date

This Statement of Investment Policy and Objectives ('SIPO') takes effect from **October 2022.**

Review Dates

The Trustees aim to review this SIPO annually. The target date for the next review of this document is September 2023 but may be earlier if either market conditions warrant or the investment structure is altered.

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

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

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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
- A return premium may be earned by committing capital to illiquid investments.
- 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 factors improve long-term returns
- Markets are behavioural in nature and not always perfect. Active management of securities 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 Advisor 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
- Allocations to illiquid investments are used to help improve expected risk-adjusted return outcomes over the long-term

- The investment structure should not be so complex as to introduce unnecessary costs
- Investment Managers with particular expertise in each asset class will be preferred
- Manager-of-manager strategies can be considered where these offer a useful means of implementation
- Active management is favoured, but passive management may be used in some cases; the role of passive management and the case for active management will be considered in any manager or sector reviews
- The Foundation is committed to integrating consideration of 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 non-financial 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.

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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 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 maintain the value of the Foundation's capital base[3] in inflation adjusted terms[4]
- 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 Principles of Responsible Investment (PRI)

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

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

Performance Objective

The current objective is a real return after investment and operating expenses (and tax, if any) of at least 3.75% per annum over rolling ten year periods.

Risk Profile

While the Foundation is fundamentally a long-term investor, the Trustees seek to avoid excessive volatility in returns in aiming to achieve its performance and distribution objectives. Accordingly, investment decisions aim to achieve target levels of return and limit the downside risk to the Fund by diversifying across a range of investment sectors and local and global economies.

In considering the Foundation's risk profile, the Trustees attempt to strike a balance between:

- Returns – taking sufficient risk to achieve target levels of return over the long-term. Lower returns can be tolerated in the short-term in the expectation of meeting objectives over the long-term.
- Volatility – avoiding performance outcomes that could lead to wide variations in the balance of the Accumulated Income Reserve.
- Timeframe – the key focus is on achieving long-term objectives, while continuing to meet short-term operational demands and distribution targets.
- Distributions – maintaining stable levels of annual distributions regardless of short-term investment returns. There is some tolerance for grant cuts or variations in distributions where investment returns are insufficient to meet distribution targets.
- Capital – Preserving the real capital of the Fund.

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

- The investment strategy is expected to maintain a positive Accumulated Income Reserve with a probability of 67%[5] over the next ten years, while meeting the performance objective of a real return after investment and operating expenses of at least 3.75% per annum.
- In any one year, the Foundation's return could be as low as –10% (5th percentile) and in a crisis period, it could be as low as –25% (1st percentile)[6].
- The probability of a negative real return (after inflation) in any 12-month period is 25%[6]; i.e. a negative return after inflation is expected 1 in every 4 years. A negative absolute return (i.e. below zero) is expected 1 in every 5.5 years.

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5 This probability is based on expected market returns as determined by Mercer for their market aware strategic asset allocation model as at March 2022 and the Accumulated Income Reserve as at 31 March 2022. Returns from active management are expected to increase the confidence of meeting this objective.

6 Mercer market aware strategic asset allocation model as at March 2022.

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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 (including responsible investment and reserving 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
- Monitoring compliance of the Fund with the Principles of Responsible Investment (PRI) and developing a responsible investment policy which aims to work towards incorporating the principles into the Foundation's investment processes
- Selection of recipients of community loans and monitoring those loans
- Selection and monitoring of direct investments (where applicable) with the support of the Investment Advisor
- Reviewing from time to time (preferably annually) this SIPO, including the investment strategy, investment policies and performance objectives
- Determining the annual amount of distributions to be made from the Fund 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 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

- If deemed appropriate, appointing other specialist advisors 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 Committee

In order to help give investment matters due consideration, the Trustees have elected to appoint an Investment Committee to consider investment matters in the first instance and bring relevant recommendations to the full Board. The Investment Committee operates under terms of reference established by the Board and detailed in its Governance Policy Manual. A record of the delegations framework is maintained in the Governance Policy Manual.

From time to time, the Trustees may delegate some functions or decisions to the Investment Committee and/or the Foundation's management in order to implement its investment strategy and meet its responsibilities as outlined above. Where applicable, an appropriate record of delegated authority will be maintained. The Trustees acknowledge that ultimate responsibility lies with the Trustees.

The Investment Committee consists of a subset of the Trustees. An independent investment committee member may also be appointed to the Investment Committee, subject to Board approval. The independent investment committee member will not be a voting member of the Committee.

Foundation Management

The Foundation's management team (including, but not limited to the Chief Executive and Chief Investment Officer) assists the Trustees in meeting their responsibilities. To do this management is charged with:

- Providing high level advice and recommendations to the Investment Committee regarding investment performance and financial management.
- Ensuring the Foundation has in place appropriate investment strategies, policies and procedures to achieve its investment objectives.
- Regularly reviewing this SIPO and engaging with and advising Trustees to enable them to manage financial risk and meet their obligations of prudent investment and financial governance.
- Managing the Foundation's investments within the SIPO requirements and approved delegations; including rebalancing the Foundation's investments in order to stay within approved asset allocation ranges.
- Liaising with the Investment Advisor, as required, in order to achieve the Foundation's objectives and those of the Trustees.

Investment Advisor

The Trustees believe that an Investment Advisor can 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 SAA and allocation ranges) consistent with the Trustees' risk and return objectives, and evaluating over time the appropriateness of 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 NZ dollar
- Advising the Trustees on the incorporation of ESG considerations into investment analysis and decision making in accordance with the Foundation's 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 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 or any of the Investment Managers immediately the Investment Advisor becomes aware of such a situation.
- Assisting the Board with investment education (Trustee training) as required.

Investment Managers

The Trustees' policy is that external investment professionals ("Investment Managers") will be appointed to manage the Foundation's investments. The Trustees have further determined that externally managed funds will be managed under a sector specialist structure, utilising multiple investment managers. Manager-of-manager products may also be considered.

Each **Investment Manager** 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 or other investments 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 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 PRI and provide records of voting activity to the Foundation on a regular (at least annual) basis.

Management of Internally Managed Operational Cash Portfolio

A separate cash account is maintained for operational purposes. The Trustees' policy is that this cash portfolio will be managed internally ("the Internally Managed Operational Cash Portfolio") The management of this portfolio will be overseen by the Chief Investment 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 Internally Managed Operational Cash Portfolio will be excluded for performance monitoring purposes.

Custody

The Trustees recognise that investments in managed funds and multi-manager investments will generally have their assets held by their appointed Trustee and this provides additional security compared to holding assets directly.

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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 (e.g. a single company or investment asset) without specific consideration and approval by the Trustees.
- The Trustees' interest in any externally managed pooled fund shall not exceed 10% of the Investment Manager's total funds under management invested in the strategy across all vehicle types (including segregated mandates), 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.
- Any decision to make an investment that does not meet the investment criteria outlined in this SIPO, or results in the overall portfolio sitting outside of any portfolio guidelines specified in this SIPO is a decision for the Board of Trustees who will, in agreeing to entertain an exception, must take steps to document the decision and agree the process for regular review of that exception.

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

    - The Board has appointed an Investment Committee to closely consider investment matters
    - An independent (non-voting) member has been appointed to the Investment Committee to help maintain a high level of governance around investment decisions
    - A comprehensive investment reporting process applies
    - An independent Investment Advisor is used
    - Professional investment managers are used for all asset classes (with the exception of Community Loans and Local Venture Investments, which are covered by separate policies maintained by the Foundation)
    - 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 from New Zealand 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.

Local Venture Investments

The Trustees have agreed that an allocation of up to 1.5% of the investable assets of the Foundation shall be made available for Local Venture investments; investments that are expected to generate both a financial return for the Foundation and provide economic and social benefits to the funding region. The Foundation maintains a Local Venture Investments Policy which outlines the objectives, criteria and process for assessing opportunities and investing Rātā Foundation money in applicable local venture investments.

In general local venture investments are subject to the following constraints:

- Maximum deal size of $2m (implies a maximum of 5-6 investments at any one time).
- Investments are limited to projects where the benefit is primarily within the funding region.
- A commercial return is sought from each investment.
- Equity investments should be limited to 20% of the total equity for each venture project to limit concentration risk.
- Loans should be limited to 30% of the total debt for each venture project to limit concentration risk.

Local venture investments will be monitored regularly, but it is not expected that investment performance will be captured within the Foundation's regular performance monitoring process (due to the likely availability of performance and valuation data). Local venture investments will be included when assessing compliance with limits on the anticipated level of overall illiquid holdings in the Foundation's investment portfolio.

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.

Liquidity Policy

The Foundation requires liquidity to meet payment obligations that include:

- Community grants and loans
- Operational expenditure

- Investment commitments, such as the settlement of forward foreign exchange contracts 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.

At the same time, the Trustees recognise that the Foundation has a high capacity for the inclusion of investments with relatively low levels of liquidity. These investments can help the Foundation achieve its performance objectives, by helping to diversify the sources of return and risk across the investment portfolio.

The Trustees' investment strategy supports the Foundation's liquidity requirements by investing at least 40% of the Fund in highly liquid investments and limiting the total investment in illiquid investments (defined below), within the following liquidity framework. The Trustees recognise that the liquidity of investments (i.e. how quickly they can be turned to cash) can change under periods of market stress. It is expected that the Foundation's investment portfolio will fit within the framework below under both normal market conditions, and during periods of market stress.

Liquidity Level	**Highly Liquid**	**Moderately Liquid**	**Illiquid**
Time to Cash	Less than 1 week	1 week to 1 year	More than 1 year
% of Portfolio	At least 40%	Up to 60%	Up to 50%

The Foundation's main source of primary liquidity is its Cash investments. Under most market conditions, the Foundation's investments in listed equities and bonds are also expected to fall within the primary liquidity level. In principle, at least two years' worth of spending will be held in Cash and Bond investments at all times. This requirement is factored into the Foundation's SAA decision.

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 investments for an extended period.

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.

For the purposes of this SIPO the Foundation defines illiquid investments as:

- Investments in private equity, unlisted property, unlisted infrastructure and private debt.
- Allocations to Community Loans and/or Local Venture investments as permitted under this SIPO.
- Any other investments from time to time that cannot reasonably be expected to be liquidated within 12 months under normal market conditions.

Under the liquidity framework and definition of illiquid investments above, the Trustees recognise that this imposes a 50% cap on the overall allocation to illiquid investments within the Fund.

Based on the current investment strategy, the expectation is that the allocation to illiquid investments (excluding Community Loans and Local Venture Investments) will be between 30% and 40% of the investable assets of the Foundation, with a benchmark target of 35%. At any given time, allocations to Community Loans and Local Venture Investments may add up to 5.5% to total illiquid investments.

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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 may be invested in any of the following general asset classes:

- New Zealand equities
- Australian equities
- Global equities, focusing on developed markets
- Emerging market equities
- New Zealand and Australian Property, listed and unlisted
- New Zealand and/or global private equity, via managed offerings
- Alternatives, which can include allocations to hedge funds, forestry, unlisted infrastructure, commodities, private debt 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 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

In May 2020, the Trustees agreed a new target allocation of 70% to growth type assets for the long-term SAA. The Trustees believe this is appropriate to balance 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 adopted the following SAA effective 27 May 2020. Recognising that many asset classes display a mix of growth and defensive characteristics, the overall allocation to growth assets is calculated using the growth and defensive weights outlined on the right hand side of the table.

					Properties	
Asset Class	Weight (%)	Benchmark	Weight (%)	Range (%)	**Growth (%)**	**Defensive (%)**
Liquid Investments:						
Listed Equities	36.0	Trans-Tasman Equities[1]	10.0	8 – 12	100	0
		Global Developed Market Equities[2]	22.8	19 – 27	100	0
		Global Emerging Market Equities	3.2	2– 4	120	-20
Total Listed Equities			**36. 0**	**32 –40**		
Liquid Alternatives	8.0	Hedge Fund of Funds[3]	8.0	6 – 10	60	40
Fixed Interest	15.0	NZ Bonds	4.0	3 - 5	0	100
		Global Bonds[3]	7.0	5 - 9	0	100
		Emerging Market Bonds[4]	4.0	3 – 5	50	50
Total Fixed Interest			**15.0**	**12 – 18**		
Cash	6.0	Cash	6.0	4 – 8	0	100
Sub-total			**65.0**	**60 -70**		
Growth/ Defensive Mix					**42.5**	**22.5**
Illiquid Investments:						
Unlisted & Private Market Investments	35.0	Unlisted Property[3]	10.0	5 – 15.0	60	40
		Private Equity[3]	10.0	0 – 15.0	130	-30
		Unlisted Infrastructure[3]	10.0	5 – 15.0	60	40
		Private Debt[3]	5.0	0 – 7.5	50	50
Sub-total			**35.0**	**30 – 40**[5]		
Growth/ Defensive Mix					**22.5**	**7.5**
Total			**100.0**		**70**	**30**

Asset Class	Weight (%)	Benchmark	Weight (%)	Range (%)	Properties Growth (%)	Defensive (%)
Growth Allocation[5]			**70.0**	**65 – 75**		

[1] The target split between New Zealand and Australian equities is 50:50. In practice this is achieved by allocating 60% to New Zealand managers with a Trans-Tasman mandate and the remaining 40% to managers with Australian only mandates as outlined in the investment structure section. An assumption is made that on average approximately 15-20% of the Trans-Tasman mandates are invested in Australian stocks. 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 (based on total exposure to Developed and Emerging Market Equities); includes an allocation to Low Volatility Developed Market Equities which is considered 80% growth and 20% defensive when determining the overall growth allocation

[3] Foreign currency exposures are 100% hedged back to NZD

[4] 50% hedged back to NZD

[5] While the Trustees aim to maintain the liquid and illiquid allocations within these ranges, to avoid the forced sale of illiquid investments the illiquid allocation can extend within the limits of the liquidity policy set out in this SIPO. Where allocations fall outside the ranges in this table, opportunities to rebalance the portfolio will be sought at reasonable valuations.

[6] 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.

Implementation

The Trustees recognise that it will take some time before the strategy for the illiquid portfolio can be fully implemented (in particular the allocation to private equity). As a result, a combination of more liquid proxy investments (e.g. equities and bonds) will be used as required to achieve the target allocation to growth assets until such time as the long-term SAA can be fully invested.

At this stage, the agreed SAA does not make an allowance for Community Loans or local venture investments. 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.

Currency Policy

Beliefs

- Currencies are notably 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:

- Offers some diversification benefits
- Reduces the volatility of returns from overseas equities
- Hedges against some of the risk of high NZ inflation and/or a collapse in the NZ dollar

Strategy

After taking advice from its Investment Advisor, the Trustees have determined that the target overall level of foreign currency exposure for the Foundation's assets is 15% - 20% within which the benchmark foreign exchange positions are:

- 50% hedging of Australian equities[7]
- 50% hedging of global equities
- 100% hedging of global private equity
- 100% hedging of Australian unlisted property
- 100% hedging of liquid alternatives
- 100% hedging of unlisted infrastructure
- 100% hedging of global fixed interest
- 100% hedging of private debt
- 50% hedging of emerging market bonds

Foreign currency hedging positions are expected to be maintained between +/- 10% of the respective benchmark hedging levels.

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.

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 Internally Managed Operational Cash, Community Loans and Local Venture Investments, which will be managed by the Foundation's Management. These portfolios are to be managed in accordance with the guidelines and constraints detailed in this SIPO and any other applicable policies maintained by the Foundation.

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 a sector specialist structure, utilising active management where appropriate in the expectation that, in aggregate over the longer-term, the active manager(s) will add to the benchmark return after accounting for fees and risk taken. Any manager and/or sector reviews will consider the role of passive management and the case for the continued use of active management. The Foundation

[7] Where NZ Equity allocations permit some discretionary investment in Australian Equities, hedging of the associated Australian dollar exposure is at the discretion of the investment managers.

currently employs passive management for part of its allocation to Global Developed Market Equities. Performance expectations relative to benchmark for each sector are specified in section 8.

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

Managers	Weight (% of total fund)	Range (%)
Trans-Tasman Equities	10.0	8.0 - 12.0
New Zealand focused core mandate 1	3.0	2.4 - 3.6
New Zealand focused core mandate 2	3.0	2.4 - 3.6
Australian focused core mandate	4.0	3.2 - 4.8
Global Developed Market Equities	22.8	19.0 - 27.0
Broad Developed Markets - Passive	13.8	12.0 - 16.0
Sustainable Global Equities	4.5	3.5 - 5.5
Low Volatility	4.5	3.5 - 5.5
Unlisted Property	10.0	5.0 - 15.0
NZ Property	3.0	0 – 10
Australian Property	7.0	0 – 15
Unlisted Infrastructure	10.0	5.0 - 15.0
Global Mandate 1	5.0	0 – 10
Global Mandate 2	5.0	0 – 10
Global Bonds	7.0	5 - 9
Global Aggregate Mandate 1	3.5	2.5 - 4.5
Global Aggregate Mandate 2	3.5	2.5 - 4.5

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 the 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.

Review

The appropriateness of the SAA will be formally reviewed at least once every three years or more often if material changes in market conditions warrant.

7

Responsible Investment Policy

Our purpose and investment beliefs

Our purpose is we strive for an equitable and sustainable society under the korowai of Te Tiriti o Waitangi. In addition, we believe taking a sustainable investment approach is more likely to create and preserve long-term investment capital. Taken together, our purpose and investment beliefs form the basis for our Responsible Investment Framework and Exclusions Policy, as detailed in this section.

Principles for Responsible Investment[8]

In its fiduciary role the Foundation believes environmental, social and governance (ESG) issues materially affect the performance of investment portfolios and in support of these beliefs the Foundation has been a signatory to the Principles for Responsible Investment (PRI) since April 2008. The PRI embodies an internationally accepted framework for investors to manage ESG issues in a manner consistent with improving long-term investment returns. As a signatory, Rātā Foundation will, over time, work towards applying 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

[8] Formerly United Nations Principles for Responsible Investment (UNPRI)

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 holds most of its investments through pooled funds, as an effective and cost efficient means of accessing both domestic and global investment markets. For such funds the Foundation recognises it will have little or no influence over the structure of the product or securities held in the fund.

In order to target a high level of alignment between the Foundation's beliefs and those of its investment managers, the Trustees use ESG ratings of its investment managers, as determined by its Investment Advisor, to measure the level of integration of ESG factors into the investment strategies utilised. The ratings range from ESG4 (little or no integration of ESG considerations) to ESG1 (leader in the integration of ESG factors and active ownership into core processes). The Foundation has a goal of maintaining a weighted average ESG rating of less than 2.5.

In an attempt to try and influence the ESG consideration of the managers in which it invests the Trustees have also shared its Responsible Investment and Exclusions policies with its investment managers.

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.

Where applicable the Foundation collects and monitors the voting activity of its investment managers with the goal of seeking alignment with the Foundation's values and beliefs and testing that the voting activity of the investment managers is consistent with the Trustees' expectations.

ESG screening and Carbon Footprint

In 2018 the Trustees undertook a screen of its listed equity holdings to identify exposure to sensitive investment industries and measure the carbon footprint of these portfolios. This was a valuable exercise in establishing engagement with the Foundation's investment managers on particular ESG issues that are important to the Foundation. Following this exercise the Trustees shared its Responsible Investment policy with its investment managers.

The intention is to perform similar analysis on a biennial basis, with the goals of reducing the Foundation's carbon footprint over time and further aligning the investment portfolio with the beliefs and objectives of the Foundation. A second review was completed in 2020.

In 2021, the Trustees tested the sensitivity of its investment portfolio (based on the strategic asset allocation detailed in this SIPO) to different climate scenarios. This helped inform the latest ESG and RI screen of the portfolio (including carbon footprint), completed in Q2 2022.

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 and investment beliefs
2. Our stakeholders' perspectives
3. Our fiduciary responsibilities
4. Compliance with the laws of New Zealand

Responsible Investment Exclusions Policy

Consistent with our purpose, investment beliefs and fiduciary responsibility, the Foundation aims to exclude investments in companies that are known to do substantial and irreparable harm to society or the environment.

In determining whether to exclude any investment on this basis, Rātā Foundation will consider:
- Whether excluding the investment supports our purpose that we strive for an equitable and sustainable society under the korowai of Te Tiriti o Waitangi
- 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 return of the investment portfolio
- 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 (e.g. engagement, either individually or collaboratively) in addressing the issue of concern. Exclusion will only be considered as a last resort.

As of April 2019, the Foundation has determined that the following products should be excluded on this basis:
- Companies manufacturing cluster munitions[9], nuclear explosive devices[10], tobacco[11], or civilian automatic and semi-automatic firearms, magazines, and parts that can be used to assemble prohibited firearms[12].

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

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

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

[11] 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".

[12] Arms (Prohibited Firearms, Magazines, and Parts) Amendment Act 2019

Implementation

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

The Foundation invests in Collective Investment Vehicles (CIVs), where the investments are pooled with those of other investors. This may include investment in 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 at times 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.

Where segregated mandates are used, these allow the Trustees to fully implement the Foundation's exclusions policy with respect to those investments.

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 its membership of the PRI and Responsible Investment Association of Australasia (RIAA).

The Foundation stays abreast of developing practices in responsible investment, monitors relevant literature and research with the goal of continuous improvement.

Emerging areas of focus for the Trustees in this regard include:

- Climate change: The Trustees recognise the potential risks and investment opportunities under different global warming scenarios. The Trustees intend to monitor the Foundation's exposure to fossil fuel investments (especially those with high carbon intensity) and test the impact of different climate scenarios on the investment portfolio on a regular basis (at least every two years)
- Assessing the investment case for aligning investments with the United Nations Sustainable Development Goals and exploring avenues to measure the Foundation's investments against these goals
- Engaging with NZ investment managers on their alignment with the spirit and principles of Te Tiriti o Waitangi and being mindful of the NZ Living Standards Framework

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. This policy is reviewed annually as part of the regular review of this SIPO, and is subject to formal reviews at least every two years.

Any implementation of the Principles shall be consistent with the Trustees' fiduciary responsibilities to deliver the best possible risk-adjusted returns over the long term.

Responsible Investment 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
	PRI (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 • Performing regular ESG and Carbon Footprint assessments of listed equity holdings • Assessing the sensitivity of the portfolio to different climate scenarios. • Measuring the alignment of listed equity holdings with the Sustainable Development Goals (SDGs)	• Requiring managers to disclose their ESG and voting activity in regular reports and presentations	• Supporting and participating in relevant networks (including PRI and RIAA) • Encouraging managers and advisors to sign-up to the PRI • 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

8

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 an 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. Where this is not possible (e.g. private equity, unlisted infrastructure, hedge funds) the most appropriate proxy, peer, or absolute return (e.g. cash or inflation plus) benchmarks are used for performance monitoring purposes. Where applicable, the Trustees recognise that manager performance can vary significantly over time relative to these benchmarks, particularly over short timeframes.

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 (partially hedged to NZD)[13]
Emerging Market Equities	MSCI Emerging Markets Free Float Index
NZ Unlisted Property	IPD Quarterly NZ Property Index (lagged)
Australian Unlisted Property	MSCI/Mercer IPD Australia Core Wholesale Property Fund Index (lagged and 100% hedged to NZD)
Private Equity	S&P/NZX Bank Bills 90-day Index plus 6%p.a.
Unlisted Infrastructure	NZ Consumer Price Index plus 6% p.a.
Alternatives – Hedge Funds	HFRI FOF: Market Defensive Index (100% hedged to NZD)
New Zealand Bonds	Bloomberg NZ Bond Composite 0+ Year Index
Global Bonds	Bloomberg 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) NZD hedged
Private Debt	S&P/NZX Bank Bills 90-day Index plus 3% p.a.
Cash	S&P/NZX Bank Bills 90-day Index

NZX = New Zealand Stock Exchange

ASX = Australian Stock Exchange

S&P = Standard & Poors

HFRI = Hedge Fund Research, Incorporated

MSCI = Morgan Stanley Capital International

IPD = Investment Property Databank

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 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

[13] A 50% NZ dollar currency hedge is targeted across Global Developed and Emerging Market Equities. In practice this is achieved by implementing a hedge on Global Developed Equities that equates to 50% of the sum of the allocations to Global Developed and Emerging Market Equities.

peers, incorporation of ESG considerations 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.

Asset Class Objectives

Asset Class	Objective per annum (measured over three year rolling periods)
NZ Equities[14]	To exceed the performance benchmark by 2.5%
Australian Equities	To exceed the performance benchmark by 2.00%
Global Developed Equities (active)	To exceed the performance benchmark by 1.50%
Global Developed Equities (passive)	To broadly match the benchmark with a tracking error of up to 0.2%p.a.
Emerging Market Equities	To exceed the performance benchmark by 1.50%
NZ & Australian Unlisted Property	To exceed the performance benchmark
Private Equity	To exceed the performance benchmark
Unlisted Infrastructure	To exceed the performance benchmark
Alternatives – Hedge Funds	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%
Private Debt	To exceed the performance benchmark
Cash	To exceed the performance benchmark by 0.20%

Investments excluded from regular investment performance monitoring

Any investments made under the Community Loans Policy, Local Venture Investments Policy and in the Internally Managed Operational Cash Portfolio are excluded from the regular investment performance monitoring process outlined above. These investments are subject to regular review under their respective policies.

[14] This includes Australasian (Trans-Tasman) Equity mandates with some discretion to invest in Australian Equities

9

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.

In order to account for investment risk or volatility, the the Foundation's assets 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 protect the Capital Base against inflation (represented by 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 Capital Base

Fluctuations in investment returns directly impact the level of the Foundation's assets 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 its current level of $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.

[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 set a distribution budget in advance of each financial year (1 April to 31 March). The current policy is to distribute, in each financial year, 3.75% of the lesser of:

- The Real Capital Base as at the end (31 March) of the last completed financial year; or
- The Unaudited Asset Value as at 31 December of the previous year (three months before the start of the financial year being budgeted for).

As an example, towards the end of FY22 (year ending 31 March 2022) the Trustees will set the FY23 distribution budget with reference to the lesser of the Real Capital Value as at 31 March 2021 and the Unaudited Asset Value as at 31 December 2021.

Use of the lesser of the two values is designed to reset the distribution budget to protect the real capital value of the portfolio in the event of a severe market downturn since the end of the last completed financial 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 were 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

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[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.

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 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 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.

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.
Equities (Shares) and Property	Shares in New Zealand or international companies	• 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.
Illiquid Investments	Unlisted Property, Unlisted Infrastructure, Private Equity and hedge funds.	• These types of investments are generally less liquid than publicly listed investments 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 Investment 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	• 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	• 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
and interest rate risk)	investments.	
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 Bonds, 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. • In particular, the current policy restricts the use of derivatives to leverage the portfolio or to create net short investment positions.
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. • The Trustees require regular reporting from the Investment Managers and Investment Advisor. • Two signatures are required for any cash flow transactions.
Liquidity risk	• Liquidity risk has two components. Firstly, the	• This SIPO sets out a liquidity policy whereby a sufficient level of liquid

Item	Key risks	How the Trustees mitigates these risks
	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.	assets (able to be readily traded on a recognised market) is maintained to meet ongoing granting and operational needs. • At least two years' spending is maintained in Cash and NZ Bond investments at all times • 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. e.g. Geographic and industry risk within the direct property portfolio.

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 Investment 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 June 2021 MSCI 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 industrialisation. As at 31 August 2022 MSCI classified the following 24 countries as emerging markets: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, 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

Purchasing Power Parity
Purchasing Power Parity (PPP) is an economic theory based on the expectation that, in the absence of transaction costs or trade barriers, the price for a particular good should be the same at every location. In practice PPP helps contrast the real purchasing power between different currencies. When PPP is achieved between two locations then the PPP exchange rate will equal the market exchange rate.

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.

Tracking Error Tracking error is a measure of a manager's risk or volatility compared to a benchmark, calculated as the annualised standard deviation of the monthly or quarterly excess returns of a portfolio versus its benchmark. A portfolio with a low tracking error will follow the benchmark closely, while a portfolio with a high tracking error may depart from the benchmark significantly.

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. Advisor – 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 Rātā to incorporate Reserving Policy, Investment Beliefs and replace Responsible Investment Processes, along with other minor amendments.

9. Revision 8. Dated November 2018 Revised by Mercer to incorporate: the new strategic asset allocation adopted in May 2018; guidelines and constraints for the directly held New Zealand Property Portfolio (with subsequent transition of the property exposure from direct investment to a pooled fund manager or managers) and Local Venture investments policy; reference to the Foundation's Responsible Investment Policy (section 8) in the Executive Summary; and a number of other minor amendments including revised Purpose and elimination of Vision adopted 2018. References to the maintenance of a Special Fund Reserve have been removed.

10. Revision 9. Dated November 2019 to incorporate updated Responsible Investment Policy (including exclusion of civilian automatic and semi-automatic firearms, magazines, and parts), currency exposure increase from additional allocation to growth assets, transition from custodian and direct property holdings (including Put Option), reduction of performance objective and distribution policy from 4% to 3.75%, and other minor amendments.

11. Revision 10. Dated December 2020 Revised by Mercer to incorporate: transition to the new strategic asset allocation adopted in May 2020; updated liquidity policy; and a number of other minor amendments.

12. Revision 11. Dated December 2021 Revised by Mercer to incorporate: update on transition to new strategic asset allocation; the new allocations to passive and sustainable equities within global developed markets; update of Responsible Investment Policy; expiry of the Put Option; and a number of other minor amendments.

13. Revision 12. Dated October 2022 Revised by Mercer to incorporate: Fully adopt new strategic asset allocation; consolidate the Introduction and Executive Summary; and a number of other minor amendments.

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