

Statement of Investment Policy and Objectives



**SOUTHLAND
FOUNDATION**

MAY 2024

Contents

- 1. Introduction 3
- 2. Roles and responsibilities 4
- 3. Investment philosophy and beliefs 5
- 4. Objectives 7
- 5. Strategic asset allocation 8
- 6. Investment policies 10
- 7. Investment guidelines 11
- 8. Reporting and monitoring 15
- Appendix 1: SIPO revision history 16
- Appendix 2: Ten Principles of the United Nations Global Compact 17
- Appendix 3: Risk and return assumptions 18

Summary

Entity type	Community Foundation, registered charity
Tax status	Tax-exempt
Current asset base	\$0
Investment time horizon	Perpetual
Strategic asset allocation	Balanced: 50% Growth, 50% Income
Expected portfolio return	4.6% to 5.6% gross
Expected portfolio risk	7.6% (standard deviation)
Expected investment costs	0.60% - 1.00%
Target distribution	3.0% - 5.0% p.a. once supported by capital base
Next SIPO review due	June 2025

1. Introduction

Purpose

The Southland Foundation (the “Foundation”) is a community foundation established to be an independent vehicle for people to make donations to the Southland community, to benefit the charitable organisations and causes that matter most to them. The Foundation’s regional area is defined by the boundaries of the Territorial Authorities, Invercargill City Council, Southland District Council and Gore District Council. It is intended that donor or client funds are invested perpetually to support nominated causes. The Foundation will pool these donor/client funds for the purposes of investment long-term (referred to as the “Fund”). Over time as the Foundation establishes a capital base, the Fund is expected to enable regular distributions to support local community causes.

This Statement of Investment Policy and Objectives (“SIPO”), prepared by the trustees of the Foundation, sets out the framework for governing investment of the Fund.

Effective Date and Reviews

This SIPO takes effect on 12 June 2024.

The trustees will review this SIPO at least annually to ensure it remains appropriate for the risk profile and objectives of the Foundation.

Capital Base

The current assets of the Fund, subject to this SIPO, as at May 2024, are worth \$0. It is expected that the Fund’s capital base will increase steadily over time through capital additions from bequests and donations.

Taxation

The Foundation is a registered charity (CC61897) and exempt from New Zealand tax.

2. Roles and responsibilities

The Foundation

The trustees have ultimate authority over and responsibility for the Fund. The trustees are empowered to appoint a sub-committee with delegated authority to perform the duties of the trustees in managing and monitoring the Fund, if considered appropriate by the trustees.

The trustees have established an Investment Committee consisting of two trustees and two independent members. The Investment Committee has been delegated primary responsibility for oversight of the Fund. The key responsibilities of the Investment Committee are to:

- a. Establish and maintain the appropriateness of this SIPO, taking into account the investment objectives and risk profile of the Foundation, by making recommendations to the trustees;
- b. Recommend for appointment appropriately qualified investment adviser(s) (“Investment Adviser(s)”) to manage the investment assets of the Fund in accordance with this SIPO;
- c. Monitor the performance of the Fund and the Investment Adviser(s);
- d. Monitor compliance with this SIPO;
- e. Consider and recommend to trustees (if appropriate) investment recommendations made by the Investment Adviser(s) unless discretion for investment decisions has been delegated to the Investment Adviser(s) under a discretionary investment services mandate.

The key responsibilities of the full board of trustees are to:

- a. Consider and approve this SIPO and any future changes recommended by the Investment Committee; and
- b. Consider and approve recommendations of the Investment Committee.

Investment Adviser

The responsibilities of the Investment Adviser(s) are to:

- a. Manage the relevant assets of the Fund in accordance with the parameters set within this SIPO;
- b. Provide the Investment Committee with advice on appropriate asset allocation (both long-term and tactical positions), investment strategy and investment policies;
- c. Manage any corporate actions for the underlying assets of the Fund;
- d. Provide regular reporting on the Fund in accordance with section 8 of this SIPO;
- e. Monitor compliance with this SIPO and report any breaches to the Investment Committee in accordance with sections 6 and 8 of this SIPO;
- f. Attend meetings with the trustees and Investment Committee as reasonably required.

3. Investment philosophy and beliefs

Investment Beliefs

The Foundation's approach to investment of the Fund is framed by a set of clearly defined beliefs:

- a. Risk and return are related. Higher returns are associated with greater risk;
- b. 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;
- c. Asset allocation has a greater impact on investment returns than decisions concerning which specific securities to invest in;
- d. Periodic rebalancing back to the long-term strategic asset allocation is a necessary discipline for maintaining an appropriate risk-return profile;
- e. Active management may return a premium over time but requires skill, good knowledge, and sound research;
- f. Investment markets are broadly efficient, but they also have a strong behavioural element;
- g. Negative investment return years should be expected from time to time and will not invalidate the maintenance of the longer-term investment objectives;
- h. Environmental, social and governance ("ESG") factors have an important role to play in investments and should be integrated into the selection and monitoring of investments;
- i. Investors should focus on net returns, as costs matter.

Management of Investment Risks

All investment involves risk. Where possible, the Trustees and Investment Adviser(s) will take mitigation measures.

Risk	Definition	Mitigation Measures
Interest rate risk	Risk of changes in the market value of a bond as a result of changes in market interest rates.	Directly held bonds will typically be held to maturity. The NZ fixed interest portfolio will be well-diversified.
Re-investment risk	Risk that a maturing bond is not able to be re-invested at the same or a better interest rate.	The NZ fixed interest portfolio will be laddered to include a range of maturity dates.
Default risk	Risk that the issuer of a bond is not able to repay the principal when due.	Issue and issuer exposure limits and minimum credit quality guidelines apply to the NZ fixed interest portfolio.

Risk	Definition	Mitigation Measures
Currency risk	Risk of fluctuations in exchange rates increasing volatility and/or reducing value of the investments in NZD.	The Fund's currency policy provides for hedging of currency risk.
Inflation risk	Risk of inflation eroding the real value of the capital base or increasing the distribution needs from the Fund.	<p>Growth assets are included in the Fund's strategic asset allocation.</p> <p>This SIPO will be reviewed regularly, and the investment strategy will be adapted if there are structural changes in return and inflation expectations.</p>
Market risk	Listed investments are subject to general market movements that may not have any relationship to the fundamental value of the investments.	<p>The Fund will be diversified across asset classes, industries and geographies.</p> <p>Investments with lower correlation or negative correlation to listed equities are included in the asset allocation.</p>
Liquidity risk	Some investments e.g. alternative assets, have limited or no liquidity, making it difficult to change or exit positions if circumstances change. Pricing for illiquid assets can lag listed markets.	Maintaining an overall level of portfolio liquidity is an investment objective. The Investment Adviser(s) will take liquidity into account when making investment decisions or recommendations, particularly in regard to alternative assets.

4. Objectives

Investment Objectives

The primary investment objectives underlying the investment policy for the Fund are:

1. Preserve and grow the capital base in real terms over the long-term;
2. Provide a reliable and growing source of returns available for distribution to support the charitable purposes of the Foundation's donors; and
3. Maintain sufficient liquidity to address short-term funding needs, should they arise.

Return Objectives

Based on the benchmark Strategic Asset Allocation set out in Section 5 below, the Fund is expected to earn a gross total return of 4.6% - 5.6% before inflation, tax and investment expenses, over the long-term, with a standard deviation of 7.6%. This expected risk-return profile is based on long-term capital market expectations as at February 2024. Capital market expectations change over time and the expected risk-return profile of the Fund will also vary.

Based on a long-run inflation assumption of 2.0% p.a. this translates to a real total return of 2.6% - 3.6% before tax and investment expenses, over the long-term.

The Fund's performance vs the long-term return expectations will be measured over rolling five-year periods. The Trustees recognise that the return objective is a long term one that may not be achieved in every measurement period and in some years, the return may be negative.

Distribution Policy

The trustees have a total return focus and as such, distributions are permitted from both income (i.e. interest and dividends) and capital gains (together "Investment Earnings"). The trustees wish to grow the Fund to a scale where it can support a meaningful and consistent distribution into the Southland community every year. However, as the Foundation is newly established it does not yet have the scale to support distributions. Therefore, in the short-term, the distribution policy for the Fund will be to reinvest all Investment Earnings and not make any withdrawals from the Fund. The trustees will keep this position under review, with the intention of making distributions as soon as this is viable. The medium-long term objective is to support distributions of 3%-5% p.a.

5. Strategic asset allocation

Risk Profile

Risk means different things to different people. In the context of the Fund, risk is defined as:

- Volatility (measured by standard deviation of returns);
- Permanent loss of capital;
- Underperformance vs objectives or vs benchmark indices; and/or
- Real-value decrease (inflation-linked).

Three factors determine an investor's risk profile:

1. Risk need
2. Risk-taking ability / risk capacity
3. Behavioural risk tolerance

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

Risk factor	Considerations	Application to the Foundation
Risk need	Investor's goal Future value need Present value of investments Time horizon to achieve goal Future contributions or distributions from the fund Estimated required return to meet the stated goals	The Foundation has a high-risk need. As a newly established charitable organization, the Foundation has limited means to cover its operating costs from sources outside of the Fund. Inflation being at levels above target further increases the required rate of return.
Risk-taking ability	Investment time horizon Ongoing liquidity needs External funding/income sources	The nature of the Foundation is that it is long-term, perpetual.
Behavioural risk tolerance	Willingness to take risk Understanding of investment markets Investment experience Perception of risk Behaviour in a crisis	The trustees are willing to take risk and have a good understanding of investment and risks. However, in the early years of the Foundation the trustees believe that it will be important to show capital preservation and a more balanced investment approach.

Based on the above assessment, the Trustees have determined that the Foundation's risk profile is Moderately Conservative.

Benchmark Asset Allocation

The investments of the Fund will be diversified across different asset classes. The trustees recognise that asset allocation is the primary driver of long-term returns and have established the following strategic asset allocation, taking into account the Foundation's risk profile and investment objectives.

Asset class	Benchmark Allocation	Minimum	Maximum
New Zealand equities	12%	5%	19%
Australian equities	8%	3%	13%
International equities	24%	14%	34%
Listed Property	3%	0%	8%
Alternative assets	3%	0%	8%
Total growth assets	50%	35%*	55%*
New Zealand Fixed Income	35%	25%	50%
International Fixed Income	12%	0%	12%
Cash	3%	0%	20%
Total income assets	50%	45%	65%*

* These figures are a minimum and maximum band for total growth assets and total income assets, they are not a sub-total of the individual asset class minimum / maximum figures.

6. Investment policies

Responsible Investment Policy

The trustees wish to ensure the Fund's investments meet generally accepted ethical and ESG standards, including the ten principles of the United Nations Global Compact (see Appendix 2). The Investment Committee and the Investment Adviser(s) will incorporate ESG considerations into investment analysis, recommendations and decision making. Refer to section 7 for Excluded Investments.

Rebalancing Policy

The trustees recognise that an asset allocation that is materially different to the Benchmark Allocation represents a departure from the agreed risk-return profile for the Fund.

The actual asset allocation of the Fund is permitted to vary from the Benchmark Allocation, within the permitted minimum-maximum range. The Investment Adviser(s) are responsible for managing the Fund within the permitted ranges (in aggregate and by asset class) and any breach:

- must be notified to the Investment Committee as soon as practicable after discovery of the breach; and
- must be remedied within five business days of discovery.

The Investment Adviser(s) will periodically rebalance the portfolio towards the Benchmark Allocation, taking into account any tactical over- or under-weight positions.

Currency Policy

The currency policy for the Fund is as follows:

- International Fixed Income will be 100% hedged to NZD.
- The benchmark position for International Equities will be 50% hedged to NZD, with the Investment Advisor having the ability to maintain a hedged ratio of between 25% and 75%.
- Hedging of Alternative Assets denominated in foreign currency will be considered by the Investment Adviser on a case-by-case basis.

Other

Derivative securities are permitted where required to give effect to the Currency Policy.

Borrowing to fund investments is not permitted other than with the approval of the Board.

7. Investment guidelines

Permitted Investments

The Fund can be invested in:

- Cash and cash equivalents, in NZD and foreign currencies
- Term deposits
- Fixed income securities, both domestic and global, including central / local government bonds, non-government bonds, either directly or via investment funds
- Equities, i.e. shares in publicly listed companies on recognised stock exchanges, directly or via exchange traded funds (“ETF”) or investment funds
- Property, via listed property vehicles or investment funds
- Alternative assets (including but not limited to, private equity, venture capital, infrastructure, agriculture, horticulture, water, carbon, private credit, asset backed securities), via investment funds.

Excluded Investments

Direct investment in businesses involved in the following activities is not permitted:

- Manufacture of cluster munitions
- Manufacture or testing of nuclear explosive devices
- Manufacture of anti-personnel mines
- Manufacture of tobacco
- Processing of whale meat
- Recreational cannabis
- Manufacture of civilian automatic and semi-automatic firearms, magazines or parts

The Investment Adviser(s) will also exclude investment in businesses or industries that:

- Do not meet generally accepted ESG standards;
- Breach the United Nations Global Compact (see Appendix 2); or
- Are inconsistent with the vision of the Foundation, of growing generosity and giving to support and strengthen the Southland community.

The Investment Adviser(s) will seek to give effect to the exclusions when investing in ETFs or investment funds. However, the Foundation recognises that it may not be practical or feasible to give full effect to the exclusions when investing in ETFs or investment funds. In this case, the ETF or investment fund should be as closely aligned as possible to the Responsible Investment Policy.

Cash

Cash and cash equivalents will comprise deposits with, or securities issued by, any registered New Zealand trading bank with an investment grade credit rating or their wholly owned subsidiaries. Term deposits up to 90 days are classified as cash. Cash may be held in multiple currencies.

New Zealand Fixed Income

The role of New Zealand Fixed Income in the portfolio is to provide security of income and capital. The New Zealand Fixed Income component of the Fund shall hold a diversified range of securities, via direct investment or investment funds. These may include (but are not limited to) New Zealand Government bonds, local authority bonds, corporate bonds, term deposits greater than 90 days, inflation-linked bonds, floating rate notes and capital bonds.

The NZ Fixed Income portfolio's average credit quality must be at least Standard & Poor's BBB+ equivalent.

Investment in non-government securities must meet the following guidelines:

- At least 80% of the NZ Fixed Income portfolio should be invested in investment grade (BBB- or above) securities;
- No holding of a single issue of investment grade securities should exceed 10% of the market value of the NZ Fixed Income portfolio (other than during the establishment of the portfolio when the size of the NZ Fixed Income Portfolio makes meeting this target impractical, with the length of such establishment phase being approved by the Investment Committee);
- No holding of a single issue of non-investment grade securities should exceed 5% of the market value of the NZ Fixed Income portfolio;
- No non-government issuer should exceed 15% of the market value of the NZ Fixed Income portfolio, with the exception of the major New Zealand trading banks for which the maximum permitted issuer exposure is 40%.

International Fixed Income

The role of International Fixed Income in the portfolio is to provide diversification of exposures and access to longer duration instruments. It is expected that investment in International Fixed Income will be via funds rather than direct investment. Investments in International Fixed Income must be consistent with the Foundation's risk profile.

New Zealand and Australian Equities

The role of New Zealand and Australian Equities is to provide sustainable income, growth in income and capital growth. The portfolio will be diversified across industry sectors and geographies. The New Zealand and Australian holdings shall complement each other to provide further diversification.

No equity holding in a single company should exceed 15% of the market value of the New Zealand or Australian Equities portfolio, as applicable.

International Equities

The role of International Equities is to provide capital growth and growth in income. The portfolio will be diversified across industry sectors and geographies via direct investments, ETFs or investment funds.

No equity holding in a single company should exceed 10% of the market value of the International Equities portfolio.

No investment in any one ETF or investment fund shall exceed 30% of the market value of the International Equities portfolio, unless otherwise authorised by the Investment Committee.

Listed Property

The Listed Property portfolio will consist primarily of New Zealand or Australian listed property vehicles. International listed property is permitted but falls under the International Equities allocation.

The Listed Property portfolio shall consist of at least three (3) listed property vehicles.

Alternative Assets

Alternative Assets can provide investment returns that are less correlated to financial market returns. In this regard, they can offer diversification benefits to the Fund. Investment in Alternative Assets is expected to be via a fund or other pooled investment vehicle. Each Alternative Asset investment must be assessed on its merits with regard to:

- Transparency of process and purpose
- Experience of the management team and track record of success
- Appropriate governance
- Investment mandate
- Access to liquidity
- Pricing and valuation methodology
- Duration of the fund
- Investment and reinvestment period
- Distribution policy
- Contribution to diversification of risk and return of the total portfolio
- Fees and tax efficiency

Exposure Limits

The following exposure limits apply across the total portfolio:

- Exposure to a single issuer (across all asset classes) shall not exceed 20% of the market value of the Fund.
- Exposure to a single industry (across all equities) shall not exceed 25% of the market value of the total equities portfolio.

8. Reporting and monitoring

Measuring Performance

Actual investment returns and volatility will be assessed against the Investment Objectives and benchmark returns (weighted to the Benchmark Allocation). The following benchmark indices will be used for measuring performance:

Asset class	Benchmark
New Zealand equities	S&P/NZX 50 Gross Index (without Imputation Credits)
Australian equities	ASX All Ordinaries Accumulation Index (NZD)
International equities	MSCI All Countries World Index (50% hedged)
Listed property	70% S&P/NZX All Equity Real Estate Investment Trusts Gross Index 30% S&P/ASX Real Estate Index
Alternative assets	50% MSCI World Index 50% RBNZ OCR + 2.5%
New Zealand fixed income	S&P/NZX Investment Grade Corporate Bond Index
International fixed income	Bloomberg Barclays Global Aggregate Bond Index (100% hedged)
Cash	S&P/NZX Bank Bills 90-Day Index

Reporting

The Investment Adviser(s) will provide quarterly reports including, at a minimum:

- Actual portfolio returns versus benchmark, by asset class, for the preceding quarter, twelve months, three years, five years and since inception
- Actual asset allocation versus the Benchmark Allocation, by asset class
- Market value of the portfolio
- Review/confirmation of compliance with the investment guidelines in the SIPO
- Statements of portfolio holdings, income, transactions and contributions/withdrawals.

The Investment Adviser(s) will also provide an annual tax report.

Monitoring

The trustees will monitor the investment performance of the Fund and the Investment Adviser(s).

The Investment Adviser(s) will report to the Investment Committee annually the actual management expense ratio for the Fund (sum of all fees charged by the Investment Adviser(s) divided by the market value of the portfolio at the end of the Foundation's financial year) together with any third-party costs. The Investment Committee will monitor the management expense ratio(s) for reasonableness.

Appendix 1: SIPO revision history

Date	Comment	Author
May 2024	First version of SIPO following establishment of the Foundation	Craigs Investment Partners – Specialised Wealth Advisory Team.

Appendix 2: Ten Principles of the United Nations Global Compact

Human Rights

- | | |
|---|--|
| 1 | Businesses should support and respect the protection of internationally proclaimed human rights; and |
| 2 | make sure that they are not complicit in human rights abuses. |

Labour

- | | |
|---|--|
| 3 | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; |
| 4 | the elimination of all forms of forced and compulsory labour; |
| 5 | the effective abolition of child labour; and |
| 6 | the elimination of discrimination in respect of employment and occupation. |

Environment

- | | |
|---|---|
| 7 | Businesses should support a precautionary approach to environmental challenges; |
| 8 | undertake initiatives to promote greater environmental responsibility; and |
| 9 | encourage the development and diffusion of environmentally friendly technologies. |

Anti-Corruption

- | | |
|----|--|
| 10 | Businesses should work against corruption in all its forms, including extortion and bribery. |
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Source: www.unglobalcompact.org/what-is-gc/mission/principles

Appendix 3: Risk and return assumptions

The following risk and return assumptions (using capital market expectations (“CMEs”) that were current as at February 2024) have been used in calculating the expected long-term risk and return parameters for the investment portfolio.

Asset class	20-year expected geometric* return (% p.a.)	20-year expected standard deviation (% p.a.)
New Zealand equities	6.3%	18.6%
Australian equities	7.0%	19.2%
International equities – unhedged	6.4%	14.5%
International equities - hedged	6.2%	16.3%
Listed Property	6.0%	14.9%
Alternative growth assets	8.8%	27.0%
New Zealand Fixed Income	3.8%	3.8%
International Fixed Income	3.7%	4.8%
Alternative income assets	5.8%	5.5%
Cash	3.3%	1.7%

Source: Craigs Investment Partners.

*The return that is compounded to determine the expected value of the portfolio after an extended period

Portfolio risk and return summary

Based on the above CMEs, applied to the strategic asset allocation set out in Section 5 of this SIPO, the portfolio is expected to have the following characteristics:

Expected return – geometric*	5.1%
Volatility	7.6%
Probability of a return < -5%	8%
1 year in:	13
Years in 20	1
Probability of a negative return	22%
1 year in:	5
Years in 20	4
Probability of a return > 6%	50%
1 year in:	2
Years in 20	10

