Adopted by the Trustees
22 MAY 2018

On: BRENJ MANNING

Signed:

Victoria University of Wellington Foundation

SIPO

Statement of Investment Policy and Objectives
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August 2017
Introduction

This Statement of Investment Policy and Objectives ("SIPO") applies to the Victoria University of Wellington Foundation.

Capital Funds

The Foundation was established for the benefit of Victoria University of Wellington for the purposes of the advancement of knowledge and the dissemination and maintenance thereof by teaching and research.

The Foundation has two sources of Capital it is responsible for, which are

- **Non-Endowed Capital Funds**
  Contributions from donors where the expectation is that the gift will be spent in full on the purpose specified by the donor.

- **Endowed Capital Funds**
  Contributions from donors where the expectation is that the contribution will be invested for the long term with investment earnings spent on the purpose specified by the donor – or where no purpose is specified, on a purpose determined by the Foundation in consultation with the University.

Investment Objectives

The primary investment objective underlying the investment policy for each Fund is:

**Non-Endowed Capital**: to protect the Capital so that it can be used for the purpose specified.

**Endowed Capital**: to maintain the real (inflation-adjusted) value of the Capital and provide a sustainable and stable annual distribution.

Roles and Responsibilities

The Trustees are responsible for this SIPO and ensuring compliance. Certain responsibilities have been delegated to the Finance, Risk and Investment Committee. An Investment Consultant and Investment Managers have been engaged to assist with certain functions.

Effective Date

This SIPO takes effect on XX August 2017 and a review is anticipated no later than August 2019 or sooner if market conditions warrant or the investment structure is altered.
Roles and Responsibilities

VUW Foundation Board of Trustees

The VUW Foundation Board of Trustees is responsible for the investment of the Fund’s assets in accordance with legislative requirements and the Trust Deed. It has adopted this SIPO for guidance.

The VUW Foundation Board of Trustees responsibilities include:

- Maintaining the investment governance framework, including effective investment policies
- Establishing investment beliefs and an investment process
- Setting, and regularly reviewing, the investment objectives and risk profile
- Determining the investment strategy for the Fund and reviewing it as appropriate. This includes the Benchmark Asset Allocation, ranges, other limits and appropriate indices
- Appointing an Investment Consultant to provide advice to the Trustees in respect of their responsibilities
- Implementing the investment strategy. This includes determining the appropriate number of managers, and appointing and monitoring those managers
- Ensuring safe custody of the investment assets
- Reviewing this SIPO annually
- Ensuring compliance with the SIPO

The Finance Risk & Investment Committee

The Finance Risk & Investment Committee ("FRIC") is a committee of the VUW Foundation Board of Trustees, established and appointed by the Board. The objective of the FRIC is to give the Board timely assistance in discharging its responsibilities for assuring the quality and integrity of the financial management of the Foundation. The FRIC has been delegated certain responsibilities under Terms of Reference found in Appendix 2, including:

- Monitoring compliance with this SIPO
- Monitoring the investment performance of the Fund and its investment managers
- Rebalancing the Fund’s investments (within Benchmark ranges)
- Making recommendations to the Board regarding the Foundation’s investment, including:
The appointment and management of the Investment Consultant
The appointment and management of the Investment Managers
Distribution and reserving levels

Investment Consultant

The Investment Consultant's responsibilities include:

- Evaluating the appropriateness over time of the long term asset allocation policy (Benchmarks and Ranges) and implementation approach
- Assisting in the review and selection of Investment Managers
- Monitoring the actual asset allocations of the Fund’s investment assets, comparing this to the Benchmarks and Ranges, reporting the results to the Trustees or the FRIC on a quarterly basis, and assisting the FRIC in rebalancing the Foundation’s investments as required
- Monitoring and reporting on the Managers’ compliance with the guidelines and constraints applying to their underlying investment funds in order to ensure that these fund specific guidelines and constraints are consistent with this SIPO
- Monitoring the investment performance of the Fund and its Managers, comparing these to the various objectives and benchmarks, and reporting the results to the Trustees or the FRIC on a quarterly basis
- Attending meetings with the Trustees and the FRIC as required
- Keeping the Trustees or the FRIC up to date with any investment developments or areas of concern
- Assisting the Trustees in the annual review of this SIPO.

Investment Managers

Each Manager will be responsible for the following:

- Managing the relevant assets of the Fund in accordance with the signed agreement between the Fund and the Manager, and in accordance with the governing documents of the relevant underlying investment fund(s)
- Ensuring that the investment fund governing documents include guidelines setting out eligible investments, performance measures, constraints and exposure limits, derivative limits, monitoring and reporting requirements and these guidelines are complied with
- Advising of changes or variations in the operation of their underlying investment funds or any fund guidelines or constraints

Providing appropriate reporting (including as to compliance with investment guidelines) to the Trustees and attending meetings with the Trustees as reasonably required.
Investment Philosophy and Process

The Trustees' investment philosophy is based around the idea that a set of well-founded investment beliefs provides a sound foundation for investment success.

Investment Beliefs

The Trustee believes that:

- Effective governance and efficient management can reduce costs and risks, and lead to better investment outcomes
- Risk and return are related. Over the long term investors are rewarded for taking on additional risk
- Broad diversification among asset classes is the cornerstone of modern portfolio management. The differing characteristics of the varying asset classes provide risk-reducing benefits from diversification when they are aggregated into a total portfolio
- Asset allocation has a greater impact on investment returns than decisions concerning which specific securities to invest in
- Taking a sustainable investment view is more likely to create and preserve long-term investment capital
- Markets are behavioural in nature and not always perfect. Active management of securities and asset allocation can sometimes (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 Trustees will aim for an investment strategy that includes a diverse set of investment assets (with different risk and return factors)
- The investment structure should not be so complex as to introduce unnecessary costs
- An Investment Consultant will be used to assist in the formation and implementation of the Foundation's investment strategy
- The Foundation will seek to appoint specialist Investment Managers
- Manager-of-manager strategies are considered a useful means of implementation (accessing specialist management without additional complexity or cost)

- Active management is favoured, but if considered appropriate, passive management may be used in some cases

- In selecting investment managers, the Foundation will consider the degree to which sustainability is incorporated into the management of the strategy

- 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.

- The Foundation will remain conscious of and promote Principles for Responsible Investment
Objectives

The Foundation was established for the benefit of Victoria University of Wellington for the purposes of the advancement of knowledge and the dissemination and maintenance thereof by teaching and research.

The Foundation has two sources of Capital it is responsible for, which are

- **Non-Endowed Capital Funds**
  Contributions from donors where the expectation is that the gift will be spent in full on the purpose specified by the donor.

- **Endowed Capital Funds**
  Contributions from donors where the expectation is that the contribution will be invested for the long term with investment earnings spent on the purpose specified by the donor – or where no purpose is specified, on a purpose determined by the Foundation in consultation with the University.

Investment Objectives

The primary investment objective underlying the investment policy for each Fund is:

**Non-Endowed Capital**

- To protect the Capital so that it can be used for the purpose specified.

**Endowed Capital**

- To maintain the real (inflation-adjusted) value of the Capital and provide a sustainable and stable annual distribution.

Both Funds will hold sufficient liquid assets to meet distribution needs as they arise.

Risk Profiles

The Trustees acknowledge that the pursuit of investment returns entails taking investment risk, that risk is multi-dimensional, and that investment risks must be managed.

Each Capital Fund has a different risk profile as follows:
Non-Endowed Capital

- The primary risk is that the capital is not made available in full to fulfil the purpose intended by the donor.
- The time frame for this Fund is typically shorter than the Endowed Capital.
- There is little tolerance for risk.

Endowed Capital

- The primary risk is that this Fund does not earn sufficient income to support the University.
- The time frame for this Fund is long-term (in perpetuity).
- There is a high tolerance for risk.

Risk Objectives – Endowed Capital

The Trustees on the basis of advice received from the Investment Consultant have determined the following long-term risk metrics:

- A long-term target allocation to growth assets of 75%
- A 60% probability of the investment strategy achieving the investment objective (before the impact of active management, which is expected to improve the probability of success)
- An expected annual volatility of 10%
- The likelihood of a negative return once every 5 years
- A potential loss of 17% in an average ‘crisis’ year

Performance Objectives

The specific performance objective for each Fund is to:

Non-Endowed Capital

- Provide returns in line with the 90-day bank bill over rolling one year periods

Endowed Capital

- Achieve a return of CPI +5.0% over rolling 10 year periods

For both Capital Funds, outperformance will be sought relative to the return of the Benchmark Portfolio over periods of one year and longer. Whilst the performance objective of the Endowed Capital is expressed in a 10 year time frame for the purposes of monitoring the performance of Investment Managers the investment returns will be measured on a rolling three year basis as described in Section 8.
Investment Strategy

The assets of the Foundation will be diversified across different asset classes to reflect the risk profile and performance objectives of the Foundation.

Permitted Investments

The Plan can be invested in the following general asset classes:

- New Zealand equities, incorporating an allocation to Australian equities (recognising the close economic relationship with Australia)
- Global equities, focusing on large capitalisation stocks from developed markets, but possibly also including emerging market and small capitalisation equities
- Real assets, which can be sub-categorised into listed and unlisted property, listed and unlisted infrastructure, and natural resources
- New Zealand fixed interest, which can be sub-categorised into sovereign and non-sovereign
- Global fixed interest, which can be sub-categorised into sovereign and non-sovereign
- New Zealand Cash.

Strategic Asset Allocation

Non-Endowed Capital

After seeking advice from its Investment Consultant, the Foundation has determined a Strategic Asset Allocation ("SAA") or Benchmark Portfolio that, in its view, best meets its objectives as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Weight (%)</th>
<th>Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>100</td>
<td>50 - 100</td>
</tr>
<tr>
<td>New Zealand Bonds</td>
<td>0</td>
<td>0 - 50</td>
</tr>
</tbody>
</table>

Endowed Capital

After seeking advice from its Investment Consultant, the Foundation has determined a Strategic Asset Allocation ("SAA") or Benchmark Portfolio that, in its view, best meets its objectives as follows:
### Asset Class

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Weight (%)</th>
<th>Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Equities</td>
<td>11</td>
<td>7 – 15</td>
</tr>
<tr>
<td>Global Equities (50% hedged after tax)</td>
<td>44</td>
<td>38 – 50</td>
</tr>
<tr>
<td>Real Assets</td>
<td>20</td>
<td>15 – 25</td>
</tr>
<tr>
<td><strong>Growth Assets</strong></td>
<td><strong>75</strong></td>
<td><strong>65 – 85</strong></td>
</tr>
<tr>
<td>NZ Fixed Interest</td>
<td>6</td>
<td>3 – 9</td>
</tr>
<tr>
<td>Global Fixed Interest (100% hedged)</td>
<td>14</td>
<td>10 – 18</td>
</tr>
<tr>
<td>Cash</td>
<td>5</td>
<td>2 – 10</td>
</tr>
<tr>
<td><strong>Income Assets</strong></td>
<td><strong>25</strong></td>
<td><strong>15 – 35</strong></td>
</tr>
</tbody>
</table>

The selection of assets within an asset class is typically delegated to external investment managers. This is subject to investment guidelines that control risk, and otherwise determine the nature of potential investments for each mandate.

### Currency Exposure

After seeking advice from its Investment Consultant, the Foundation has determined that a benchmark foreign exchange hedging position as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Currency Hedging (%)</th>
<th>Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Equities</td>
<td>At the discretion of the Investment Manager (where the manager has the discretion to invest in Australian shares)</td>
<td></td>
</tr>
<tr>
<td>Global Equities</td>
<td>50</td>
<td>25 – 75</td>
</tr>
<tr>
<td>Real Assets</td>
<td>100</td>
<td>95 - 105</td>
</tr>
<tr>
<td>Global Fixed Interest</td>
<td>100</td>
<td>95 - 105</td>
</tr>
</tbody>
</table>

### Reviewing the Investment Strategy

The Trustee, together with the Investment Consultant, will undertake a formal strategy review at least every three years. Any recommended changes are supported by detailed analysis setting out the rationale for changes and the expected impact on Fund characteristics.

Potential enhancements considered in formal reviews may include:

- The addition of a new asset class or a new type of investment;
- Incorporation of new research;
- Investment environmental factors including significant market events; and
- Long-term market/industry trends and the outlook for growth.
Investment Strategy Transitions

The Trustees acknowledge that the current SAA is different to the Foundation’s former strategic asset allocation and there will be a period of transition. It is acknowledged that during the transition period the asset allocation of the portfolio will not be in line with the SAA and the actual positions may fall outside the ranges set out in the SIPO.

However, the Trustees will manage this process prudently, including setting a timeframe by which they expect to complete the transition, and monitor the transition.

During periods of the transition, performance monitoring may use an adjusted benchmark position to better measure relative performance. At the time that an adjustment is needed, the Trustee, together with the Investment Consultant, will decided on the most appropriate benchmark.
Investment Policies

General
In taking decisions on investment strategies, the Trustees will have regard to the overall circumstances of the Fund, and will comply with all applicable legislative requirements.

Asset Allocation Policy
In the normal course of events, the Trustees will not alter the asset allocation of the Fund’s investments from the Benchmarks and Ranges. However, some drift away from the Benchmarks and Ranges may occur due to market fluctuations.

Rebalancing Policy
The following policies apply in respect of rebalancing the Foundation’s Benchmark Portfolio.

- The exposures to the various asset classes will be monitored quarterly by the Investment Consultant and reported to the Trustees or the FRIC in a Quarterly Investment Monitoring Report.
- The Trustees recognise that an asset allocation that is materially different to the Benchmark position represents a risk that the Fund will not perform as expected.
- However, the Trustees have the discretion to allow the asset allocation to vary from the Benchmark position, provided the mix remains within the Ranges.
- If the allocation to any asset class is outside the relevant SAA Range, then action will be taken to bring the weights to within the SAA Ranges.
- The Funds may also be rebalanced, even if the Range has not been breached.
- In considering when and how to rebalance asset classes towards target weights, the Trustees will take into account advice from the Investment Consultant which may consider recent volatility and the likelihood of market movements, along with transactions costs likely to be incurred in any transition.
- The regular cashflow requirements of the Fund provide an opportunity to assist in rebalancing the Fund towards target weights, by directing the outflows to the overweight asset class(es) and any inflows to underweight
asset class(es). Rebalancing can also be undertaken by selling overweight asset classes to fund the acquisition of underweight asset classes.

Liquidity Policy
The Fund requires liquidity to meet payment obligations that include:

- Distribution requirements
- Rebalancing requirements
- Fee or expenses

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

The Endowed Capital and Non-Endowed Capital Funds have different liquidity profiles.

Non-Endowed Capital
The Non-Endowed Capital Fund has a high requirement for liquidity, as it is expected that the full value of the donation and any earnings will be distributed in the near term (often less than 12 months).

For this reason, the Fund will be invested predominantly in short-term liquid securities. In addition, the University is able to provide liquidity from other funding sources in the event that Fund investments are not available.

Endowed Capital
The Endowed Capital Fund has less need for liquidity as it is expected that it will only need to fund annual distributions at the Target Distribution Rate.

The Fund's primary source of liquidity is its Cash investments. Cash investments also play a role in the Fund's investment strategy, providing a stable return with low volatility. The Fund's investment strategy also supports its liquidity requirements by predominantly investing in listed securities. However, the Fund has the capacity to invest up to 20% of its assets in illiquid securities. Illiquid investments typically offer a premium which is available to long-term investors like the Foundation.

Currency Policy
Currency risk is the risk that foreign currency denominated assets will lose value (in New Zealand dollar terms) due to the effect of an adverse exchange rate movement. Unmanaged currency movements can have a material impact on investment returns, particularly over the short-term.

Currency hedging is essentially protection against changes in currency exchange rates. Those assets which are not hedged will have exposure to currency exchange rate movements, resulting in a benefit when the New Zealand dollar goes down and a decrease in value when the New Zealand dollar goes up, relative to other currencies.
Currency hedging can add to returns where a positive ‘carry’ impact is expected (where the interest rate applicable to the foreign currency is less than the NZ interest rate). However, some foreign currency exposure can reduce the volatility of expected returns, particularly for global equities. In particular, in a ‘risk off’ environment, a falling NZ dollar may offset falls in equity prices.

The currency policy is to hedge total Global Equity investments at 50% (after tax). This does not apply to Australian currency exposure within the Trans-Tasman Equities portfolio, which will be hedged at the discretion of the relevant Managers. The policy is for the Real Assets and Global Fixed Interest sectors to be fully hedged (as hedged returns provides a more consistent risk/return outcome for these assets).

**Derivatives Policy**

The use of futures, options and other synthetic investments (derivatives) is permitted wherever their use is consistent with the objectives of the Fund and the investment constraints.

**Ethical and Responsible Investments Policy**

The Trustees have adopted a prudent and conservative risk attitude. The Trustees also have an objective to avoid investing in industries or organisations whose purpose does not meet generally accepted ethical standards of responsible environment, social and governance or that do not align with the values and objectives of the University.

The Trustees implement this objective in three primary ways:

A. **Exclusions:** Making known to our Investment Managers (including through this SIPO) the specific industries or organisations that we do not wish to invest in. Our strong preference is therefore that there be no direct investments in industries such as:
   - Armaments
   - Tobacco
   - Gambling
   - Carbon-emitting fossil fuels; and
   - Those that do not value life

B. **Selection:** The Trustees recognise that investment in pooled funds may be the most efficient way to implement their investment strategy. In this event, the Trustees acknowledge they will not be able to control the investment in specific companies.

The Trustees will address this by investigating the record and policies of firms when Investment Managers are selected and appointed. Managers with strong sustainability characteristics will be preferred and our investments will be placed with those who practice the six Principles for Responsible Investment as promoted by the United Nation’s PRI or equivalent.
C. **Engagement:** Regular engagement with the appointed investment managers to

- Communicate the Foundation's objectives and intentions
- Monitor the underlying investments the Foundation is invested in
- Understand the engagement each Manager has with the companies invested in.
Investment Management

Manager Selection

The Trustees focus on selecting Managers who are specialists within their particular investment markets and who the Trustees consider have demonstrated capability and conviction in portfolio construction and the execution of investment strategies, and have positive sustainability credentials.

The Trustees seek advice from the Investment Consultant as to suitable Managers for appointment. The aim is to achieve a level of returns meeting or exceeding the objectives set, from time to time, for the Fund and which is consistent with the Fund's risk profile.

The Trustees also seek advice from the Investment Consultant that the fees negotiated with each Manager are consistent with market practice and the expectation for excess returns (after fees).

Where appropriate, the Trustees may select a manager-of-managers (i.e. a manager who invests in managed funds managed by other managers) to achieve manager diversification that would otherwise not be practical.

Manager Reviews

From time to time, the Trustees, with the assistance of the Investment Consultant, will review the Managers to ensure they remain appropriate for the Fund.

Factors taken into account in these reviews will include investment style, people, organisational strength, investment performance relative to objectives, sustainability credentials, fees and any other factors considered relevant to the Manager's continuing ability to meet the applicable investment objective.

The Trustees reserve the right to appoint Managers which are not highly regarded by the Investment Consultant.

Investment Managers

The Fund's Managers are detailed in the Appendix 1.

Investment Guidelines

The investment guidelines and constraints of the Fund will largely be determined by the governing documents of the sector specialist funds into which the Fund invests.

The governing documents for these funds will typically include guidelines setting out eligible investments, performance measures, constraints and exposure limits, derivative limits, monitoring and reporting requirements.
Non-Endowed Capital Management

The Trustees have elected to engage the University to manage Non-Endowed Capital. The Trustees see a number of advantages in this approach, including:

- The ability to benefit from term deposit investment dynamics
- The ability to maximise duration risk through a detailed understanding as to when funding is required – allied with an understanding that the University will 'guarantee' liquidity
- Not having to pay external investment management fees
- Being able to rely on the existing treasury management function and its risk control elements

The arrangement with the University will be documented, including the terms of the mandate and appropriate assurances from the University.
Investment Performance Monitoring

This policy describes the principles and processes governing investment performance monitoring, having regard to the investment strategies of the Fund.

The principal goals of performance monitoring are to:

- Assess the extent to which the Funds’ investment objectives – both performance and risk - are being achieved
- Compare the performance of the Funds’ appointed Managers against market indices, out-performance targets, and the performance of other relevant professional managers
- Ascertain the existence of any particular weakness in the Managers or the Managers’ products utilised
- Allow the Trustees to continually assess the ability of the Managers to successfully meet the Funds’ objectives.

Fund Performance

The Trustees will monitor performance of the Funds each quarter. Performance will be assessed against:

- The Funds’ long-term investment performance and risk objectives
- The performance of the Funds’ composite benchmark (assessed by reviewing the performance of specific market indices for each asset class, in proportionate weights as per the Benchmarks and Ranges).
  - From time to time the Trustees will also assess the Funds’ performance against peer funds.

Investment Manager Performance

The Managers will report at least quarterly in accordance with a format agreed with the Trustees.

Managers’ performance will be monitored quarterly with a view to an annual evaluation of rolling three year results. Performance will be assessed against:

- Market indices as per the Appendix 1
- Out-performance targets as per Appendix 1
- Peers.
Distributions and Reserves Policy

The Distribution Policy provides the basis under which the Foundation’s investment earnings are allocated and distributed.

Definitions

CPI – annual rate of inflation as determined by Statistics New Zealand

Base Endowed Capital – the value of the initial endowed capital donation

Real Endowed Capital – the value of the initial endowed capital donation adjusted for inflation over time

Target Distribution Rate – the amount the Trustees expect to distribute to the Project Accounts from the Endowed Capital Fund expressed as a percentage of Real Endowed Capital (or base Endowed Capital for donations received in the last year). The current Target Distribution Rate is 5% p.a.

Investment Fluctuation Reserve (IFR) – a reserve account where investment earnings in excess of inflation plus the Target Distribution Rate are stored for use in years when investment earnings are insufficient

Project Accounts – funds made available to the University for use as specified by donors, the Trustees, or at the discretion of the University

Distribution Policy

The distribution policies are distinct for the two Funds and are set out below:

1. Non-Endowed Distribution Policy

   The Trustees can apply any investment earnings on Non Endowed Capital to Non Endowed Project Accounts at their discretion, except where obligations have been incurred under the Acceptance of Donations Policy.

2. Endowed Distribution Policy

   Investment earnings on Endowed Capital will be applied as follows:

   A. Inflation adjustment

      Endowed Capital balances will be adjusted by CPI.

      Where the donation was received during the year, the Base Endowed Capital value will be adjusted pro rata for the relevant part of the year.
Where the donation was received during a prior year, the Real Endowed Capital value as at the start of the year will be adjusted by inflation for the full year.

Where the investment earnings for the year are insufficient, the inflation adjustment to the extent able will be processed from the Investment Fluctuation Reserve.

B. Endowed Project Account funding

Endowed Project Account funding is at the discretion of the Trustees.

It is expected that Endowed Project Accounts will be funded at the target distribution rate.

Where the donation was received during the year, the target distribution rate will be applied to the Base Endowed Capital value on a pro-rata basis.

Where the donation was received during a prior year, the target distribution rate will be applied to the Real Endowed Capital value as at the start of the year.

If the investment earnings are below the target rate after CPI, at the Trustees’ discretion the earnings will be topped up from the Investment Fluctuation Reserve, so long as the IFR is maintained at or above the IFR lower limit.

It is feasible that no Project Account funding will occur in a year when investment earnings are insufficient and the IFR is at or below its lower limit.

C. Investment Fluctuation Reserve

If investment earnings are above the target rate after CPI, the excess of earnings will be transferred to the IFR up to the point where the IFR reaches its upper limit.

Where the IFR is at or above its upper limit, the Trustees, at their discretion, may grant Project Account funding above the target distribution rate.

Project Expenditure Budgeting

Trustees and staff will be expected to budget and manage Capital Endowed Project funding expectations to a level no higher than the target distribution rate.

Reserves Policy

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

Investment Fluctuation Reserve

The Trustees will maintain an IFR with the purpose of providing a buffer from which the inflation adjustment and project funding can be topped up in years when the investment return is below CPI plus the target distribution rate. The IFR pool will be replenished in years when the investment returns exceed CPI plus the target.

The Investment Fluctuation Reserve range will be -5% to +20% of Real Capital.
Worked Example: Annual Investment Earnings Allocation

An endowed donation of $1,000,000 is received by the Foundation on 1 January. CPI for the year to 30 June is 2.5%. Investment earnings for the 12 months ended 30 June were $2,200,000. The total closing balance of capital endowed projects in the Foundation at 30 June is $24,000,000.

Step 1: Calculate CPI

- 2.5% of the balance of capital endowed projects is added to each endowed balance. Where the balance has been held for less than a year, the allocation of the CPI amount will be on a pro rata basis.

- For the above example the endowed balance of $1,000,000 will be inflated by 1.25%, to $1,012,500 (balance has been held for 6 months).

- For the total closing balance of capital endowed projects (making the assumption that all funds had been invested for a year) the CPI adjustment would be $24 million @ 2.5%, $600,000.

Step 2: Calculate allocation of investment income for endowed project expenditure

- Investment earnings in the above example were $2,200,000 for the year. Once the CPI adjustment is made there is a balance of $1,600,000 available for distribution.

- The average annual return from investments is expected to be CPI + 3%, i.e. 5.5% for this example. A 5.5% rate of return on the endowed capital balance plus CPI ($24,600,000) totals $1,353,000.

- The targeted distribution of $1,353,000 is below the investment earnings for the year of $1,600,000 after deducting the CPI payment. In this case the $1,353,000 will be allocated to endowed projects on a pro rata basis.

Management of the Investment Fluctuation Reserve

- The proposed distribution of investment earnings of $1,353,000 is below the residual earnings of $1,600,000 by $247,000. This amount will be withheld from the distribution and added to the Reserve, unless the reserve is already over 20% of real endowed capital. In this event, the total investment earnings of $1,600,000 would be distributed to the project balances.

- If the residual earnings after CPI had been less than $1,353,000 then an amount to bring the funds available up to $1,353,000 will have been drawn down from the Investment Fluctuation Reserve (provided the Reserve would not fall below -5% of the endowed balances (-$1,230,000)).
Review

Effective Date
This SIPO takes effect from XX August 2017

Review Date
The review date of this SIPO is anticipated to be no later than August 2019 or sooner if market conditions warrant or the investment structure is altered.

Review Process
The Trustees are responsible for the review of this SIPO, with assistance, as appropriate, from the Investment Consultant.
Appendix 1

Mandates and Fund Managers

As at the date of this SIPO, the Investment Managers, asset class strategies, benchmark indices and out-performance targets are as follows:

**Non-Endowed Capital Fund:**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund</th>
<th>Benchmark Index</th>
<th>Out-performance target (p.a.) – over rolling 12 month periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Cash</td>
<td>Victoria University Treasury Department</td>
<td>S&amp;P/NZX 90 Day Bank Bill Index</td>
<td>+0.50%</td>
</tr>
</tbody>
</table>

**Endowed Capital Fund:**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund</th>
<th>Benchmark Index</th>
<th>Out-performance target (p.a.) over rolling 3 year periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trans-Tasman Equities</td>
<td>ANZ Australasian Share Fund</td>
<td>S&amp;P/NZX 50 Gross Index</td>
<td>+2%</td>
</tr>
<tr>
<td>Global Equities</td>
<td>ANZ International Share Fund</td>
<td>MSCI All Countries World Gross Index</td>
<td>+2%</td>
</tr>
<tr>
<td>New Zealand Interest Fixed Interest</td>
<td>ANZ Sovereign Bond Fund</td>
<td>S&amp;P/NZX NZ Government Stock Index</td>
<td>+0.75%</td>
</tr>
<tr>
<td>New Zealand Interest Fixed Interest</td>
<td>ANZ High Grade Bond Fund</td>
<td>S&amp;P/NZX NZ Government Stock Index</td>
<td>+0.75%</td>
</tr>
<tr>
<td>Investment Category</td>
<td>Fund Name</td>
<td>Benchmark Description</td>
<td>Return</td>
</tr>
<tr>
<td>---------------------</td>
<td>----------------------</td>
<td>------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Global Fixed Interest</td>
<td>ANZ Sovereign Bond Fund</td>
<td>Barclays Global Treasury GDP-weighted Index</td>
<td>+0%</td>
</tr>
<tr>
<td>Global Fixed Interest</td>
<td>ANZ Credit Fund</td>
<td>USD/EUR/GBP Corporate Custom 1% Issuer Capped</td>
<td>+0%</td>
</tr>
<tr>
<td>Global Fixed Interest</td>
<td>ANZ Aggregate Bond Fund</td>
<td>Barclays Capital Global Aggregate Index</td>
<td>+1%</td>
</tr>
<tr>
<td>New Zealand Cash</td>
<td>Bank Term Deposits</td>
<td>S&amp;P/NZX 90 Day Bank Bill Index</td>
<td>+0.25%</td>
</tr>
</tbody>
</table>
Appendix 2

Finance Risk & Investment Committee

The Finance Risk & Investment Committee (the ‘Committee’) is a committee of the VUW Foundation Board of Trustees (the ‘Board’), established and appointed by the Board.

1 Terms of Reference

1.1 The objective of the Committee is to give the Board timely assistance in discharging its responsibilities for assuring the quality and integrity of the financial management of the Foundation, in particular with regards to monitoring of the performance of the Investment Managers, compliance with the SIPO, financial reporting, and the monitoring of financial performance.

1.2 To this end the Finance Risk & Investment Committee are responsible for monitoring the Foundation’s compliance with its Statement of Investment Policies & Objectives (the ‘SIPO’), including reporting of any breaches of the SIPO to the Board. It is also responsible for management of the performance of the Investment Manager (or Managers in the case of a multi-manager model), including their performance against the targets and benchmarks as laid out in the Foundation’s SIPO.

1.3 The Committee shall rebalance tactical assets on the Investment Consultant’s recommendation provided it is within the strategic range.

1.4 In addition, the Committee will receive regular reports for noting from management on:

- The financial performance of the Foundation, including
  - Projections of the financial performance of the Foundation;
  - Financial performance of the Foundation against its targets;
  - Financial reporting, including the form of and timetable for financial reporting.

The Committee will make recommendations to the Board of Trustees concerning:

- Management of the assets and liabilities of the Foundation, including:
  - The appointment and performance of the Investment Manager(s);
  - The appointment and management of the Investment Consultant;
  - Management’s compliance with the Foundation’s Distribution policy, including recommendations to the Board of Trustees as to the annual investment earnings allocation, including recommendations on CPI and usable fund allocations;
  - Quarterly review of disbursements made from the Foundation, including obtaining appropriate representations from management that all such payments have been made in accordance with donors’ wishes.

August 2017
2 Constitution
The number of members of the Committee shall be not less than five, at least three of whom shall be members of the Board of Trustees, including the Chair of the Board of Trustees.

3 Committee Membership 2017
Brent Manning (Chair)
Craig Stevens (Chair of the Board of Trustees)
Steven Fyfe (Trustee)
Leo Lonergan (Trustee)
Roger Drummond (Committee Member)

4 Meetings
4.1 A quorum of members of the Committee shall be the majority of the members of the committee then holding office.

4.2 The Committee may have in attendance such other persons as it considers necessary to provide appropriate information and explanations.

4.3 Meetings shall be held not less than four times a year. Any member of the committee may, through the Chair, request a meeting at any time if they consider it necessary.

5 Authority
5.1 The Committee is a committee of the Board of Trustees, and shall have no authority independent of the functions delegated to it by the Board of Trustees.

5.2 The conclusions and pronouncements of the Finance Committee shall not relieve the Board of Trustees from any of its responsibilities, apart from those delegated to the Finance, Risk & Investment Committee by the Board of Trustees.

6 Review of the Committee
6.1 The Committee shall undertake a three yearly review of its responsibilities and activities and, if necessary, report to the Board of Trustees on that review.

6.2 Such responsibilities and activities may also be reviewed by such bodies and persons as the Board of Trustees considers appropriate.

7 Reporting Procedures
7.1 The Committee shall maintain direct lines of communication with the Executive Director of the Foundation and the Chief Financial Officer (or delegate).

7.2 The Executive Director of the Foundation, and the Chief Financial Officer (or Delegate), shall be responsible for drawing to the Committee’s immediate attention any material matter that relates to the financial strategy of the Foundation.

7.3 After each committee meeting the Chair (or delegate) shall report the Committee’s conclusions and recommendations to the Board of Trustees.