Adopted by the Trustees

On: **26 May 2020**

Signed:

Victoria University of Wellington Foundation

SIPO

Statement of Investment Policy and Objectives

Contents

INTRODUCTION 4

ROLES AND RESPONSIBILITIES 5

VUW FOUNDATION BOARD OF TRUSTEES 5

INVESTMENT CONSULTANT 6

INVESTMENT MANAGERS 6

INVESTMENT PHILOSOPHY AND PROCESS 7

INVESTMENT BELIEFS 7

INVESTMENT APPROACH 7

OBJECTIVES 9

INVESTMENT OBJECTIVES 9

RISK PROFILES 9

PERFORMANCE OBJECTIVES 10

INVESTMENT STRATEGY 11

PERMITTED INVESTMENTS 11

STRATEGIC ASSET ALLOCATION 11

REVIEWING THE INVESTMENT STRATEGY 13

INVESTMENT POLICIES 14

GENERAL 14

ASSET ALLOCATION POLICY 14

REBALANCING POLICY 14

LIQUIDITY POLICY 15

CURRENCY POLICY 15

DERIVATIVES POLICY 16

ETHICAL AND RESPONSIBLE INVESTMENTS POLICY 16

INVESTMENT MANAGEMENT 18

MANAGER SELECTION 18

MANAGER REVIEWS 18

INVESTMENT MANAGERS ..... ERROR! BOOKMARK NOT DEFINED.

INVESTMENT GUIDELINES 18

NON-ENDOWED CAPITAL MANAGEMENT ..... ERROR! BOOKMARK NOT DEFINED.

INVESTMENT PERFORMANCE MONITORING 19

FUND PERFORMANCE 19

Investment Manager Performance 19
Distributions and Reserves Policy 20
Distribution Policy 20
Project Expenditure Budgeting 21
Reserves Policy 21
Worked Example: Annual Investment Earnings Allocation 22
Step 1: Calculate CPI ..... **Error! Bookmark not defined.**
Step 2: Calculate allocation of investment income for endowed project expenditure 22
Management of the Distribution Reserve 22
Review 24
Mandates and Fund Managers ..... Error! Bookmark not defined.
Finance Risk & Investment Committee 27

1

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 26 May 2020 and a review is anticipated no later than 1 December 2020 or sooner if market conditions warrant or the investment structure is altered.

2

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.

3

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

4

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 (including the Distribution Reserve)

- 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 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.

5

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:

Asset Class	***Weight (%)***	***Range (%)***
Cash	100	50 - 100
New Zealand Bonds	0	0 - 50

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 (effective August 2017):

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

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:

Asset Class	*Currency Hedging (%)*	*Range (%)*
New Zealand Equities	At the discretion of the Investment Manager (where the manager has the discretion to invest in Australian shares)	
Global Equities	50	25 – 75
Real Assets	100	95 - 105
Global Fixed Interest	100	95 - 105

Transition to New Strategic Asset Allocation

The Trustee recognises that it will take some time to implement the new SAA, and in particular to fund the new allocation to Real Assets, and that during this time the actual asset allocation will be outside the allocation ranges in this SIPO.

The Trustee has engaged the Investment Consultant to determine interim target asset allocations for rebalancing and performance monitoring purposes until such time as the actual asset allocation is within the allocation ranges detailed in this SIPO. The Investment Consultant will inform the Trustee whenever there is a change to the interim target asset allocation.

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.

6

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.

- As detailed in section 5 (Transition to New Strategic Asset Allocation), the Investment Consultant will maintain interim target asset allocations during the period when the allocation to Real Assets is being funded. The above rebalancing policy will apply to any interim target allocation during the period it is in effect.

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.

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 environmental, social and governance (ESG) standards, 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.

United Nations Principles for Responsible Investment

In support of this policy the Foundation became a signatory to the United Nations Principles for Responsible Investment (UNPRI) in 2018. The UNPRI embodies an internationally accepted framework for investors to manage ESG issues in a manner consistent with improving long-term investment returns. As a signatory, the Foundation will, over time, aim to apply the following principles:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into its ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which it is invested.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together with other signatories to enhance its effectiveness in implementing the Principles.
6. Report on its activities and progress towards implementing the Principles.

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

7

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 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.

8

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.

9

Distributions and Reserves Policy

The Distribution Policy provides the basis under which the Foundation's investment earnings are allocated and distributed. The priority is to maintain a stable distribution of funds, and then to protect capital.

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.

Distribution Reserve (DR) – 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. Distribution Reserve

If investment earnings are above the target rate, the excess of earnings will be transferred to the DR up to the point where the DR reaches its upper limit is of the DR range.

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

The exception will be when investment losses have been experienced, which reduced the Endowed Capital balance – in that instance, the annual distribution will be made and any excess of earnings will be transferred to the Endowed Capital balance until the endowed capital balance, plus caught up CPI, is restored. Then the excess will be transferred to the DR

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, at the Trustees' discretion the earnings will be topped up from the Distribution Reserve, so long as the DR is maintained at or above the DR lower limit.

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

C. Inflation adjustment

Endowed Capital balances will be adjusted by CPI, if there is sufficient funds after the distribution has been applied

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 negative, or insufficient, there will be no inflation adjustment for the year.

Where CPI is negative, it will not be applied to the Real Endowed Capital value, but the CPI adjustment in the year when CPI returns positive, will be cumulative of the prior year(s).

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:

Distribution Reserve

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

The Distribution Reserve range will be 0% 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 allocation of investment income for endowed project expenditure

- Investment earnings in the above example were $2,200,000 for the year which are available for distribution.
- The average annual return from investments is expected to be 5%. A 5% rate of return on the endowed capital balance ($24,000,000) totals $1,200,000.

Step 2: 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).
- If the investment earnings had been negative, CPI would not be allocated
- If CPI was negative, it would not be allocated to capital endowed projects in that year, but netted against future year's positive CPI allocation.
- 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. In this case the $1,200,000 will be allocated to endowed projects on a pro rata basis and the $600,000 allocated to endowed capital on a pro rata basis.

Management of the Distribution Reserve

- The proposed distribution of investment earnings of $1,800,000 is below the earnings of $2,200,000 by $400,000. 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 $2,200,000 would be distributed to the project balances at the trustee's discretion.
- If the earnings had been less than $1,800,000 then an amount to bring the funds available up to $1,800,000 will have been drawn down from the Distribution Reserve (provided the Reserve would not fall below 0% of the endowed balances).
- If the prior period investment earnings had been negative and deducted from the capital endowed projects, the difference between the current year's income allocation of $1,200,000 and the annual investment earnings $2,200,000 of $1,000,000 would be allocated to the real endowed capital. This will continue until the real endowed capital is restored and CPI caught up. Then the excess earnings would revert to the Distribution Reserve.

10

Review

Effective Date

This SIPO takes effect from 26 May 2020

Review Date

The review date of this SIPO is anticipated to be no later than 1 December 2020 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

Benchmarks

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

Non-Endowed Capital Fund:

Asset Class	Benchmark Index	Out-performance target (p.a.) – over rolling 12 month periods
New Zealand Cash	S&P/NZX 90 Day Bank Bill Index	+0.50%

Endowed Capital Fund:

Asset Class	Benchmark Index	Out-performance target (p.a.) over rolling 3 year periods
Trans-Tasman Equities	S&P/NZX 50 Gross Index	+2%
Global Equities	MSCI All Countries World Gross Index	+2%
New Zealand Fixed Interest	S&P/NZX NZ Government Stock Index	+0.75%

New Zealand Fixed Interest	S&P/NZX NZ Government Stock Index	+0.75%
Global Fixed Interest	Barclays Global Treasury GDP-weighted Index	+0%
Global Fixed Interest	USD/EUR/GBP Corporate Custom 1% Issuer Capped	+0%
Global Fixed Interest	Barclays Capital Global Aggregate Index	+1%
New Zealand Cash	S&P/NZX 90 Day Bank Bill Index	+0.25%

Real Assets Composite Benchmark

Sector	**Weight**	**Benchmark**
Listed Property	25.5%	FTSE EPRA/NAREIT Developed Index (with net dividends reinvested) (100% hedged to NZD on an after tax basis)
Unlisted Property	17%	NZ Consumer Price Index (CPI) + 4%;
Listed Infrastructure	25.5%	FTSE Global Core Infrastructure 50/50 Index with net dividends reinvested (100% hedged to NZD on an after tax basis);
Unlisted Infrastructure	17%	NZ Consumer Price Index (CPI) + 3%
Natural Resources	15%	60% Bloomberg Commodities Index Total Return (100% hedged to NZD on an after tax basis) and 40% Consumer Price Index + 5%

Appendix 2

Finance Risk & Investment Committee

The Finance Risk & Investment Committee (the 'Committee') shall be 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; and
  - financial reporting, including the form of and timetable for financial reporting.

1.5. 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; and
  - 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.

2. Constitution

The number of members of the Committee shall be not less than four, at least three of whom shall be members of the Board of Trustees, including the Chair of the Board of Trustees.

3. Meetings

3.1. A quorum of members of the Committee shall be three of the members of the committee then holding office.

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

3.3. 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.

4. Authority

4.1. 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.

4.2. 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.

5. Review of the Committee

5.1. 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.

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

6. Reporting Procedures

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

6.2. 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.

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