

Hawke's Bay Foundation

Summary of investment policies and objectives

March 2013

Background

The Foundation is a community foundation with the underlying principle that responsibility begins at the local level. It provides a vehicle for individuals, families, companies and groups to endow local community causes and organisations. Donations and legacies given to the Foundation are invested in perpetuity with income being distributed to the designated causes and organisations and as appropriate, the wider community.

The donations and legacies form the "capital base". Each year the capital base is adjusted by the CPI inflation rate to maintain it in real terms.

Primary objectives

The primary objectives underlying the investment policies for the Foundation are:

- to ensure that the assets are invested prudently, consistent with the Foundation's purposes;
- to maintain the value of the assets above the capital base and to grow such value at such level above the inflation rate as determined by the Trustees;
- to ensure that money is available for distribution to meet the granting policies; and
- to maximise the funds available for distribution over the long-term.

Grants/distribution policy

The grants policy of the Foundation is to make distributions each year equal to a minimum of 3.0% of the capital base at the start of the year. The targeted level of distributions will be reviewed as market conditions vary, the priorities of the Foundation change and opportunities to meet the Foundation's purpose arise.

Return and risk requirements

The return requirements of the Trustees are to achieve:

Long term (20+ years)

- a real return after investment and other expenses, on average, of at least 3.0% a year, and

Short term

- an income cash flow return of 4.0% of the capital base each financial year.
- a positive total return over the short-term (2 to 3 years).

The risk profile of the investment strategy will be set to maximise the long-term return within the context of the market environment to achieve the return requirements.

The Trustees recognise that the investments are likely to demonstrate short-term volatility. Accordingly, to help protect the distributions from these fluctuations, the Trustees will seek to build a level of assets over and above the "capital base" at 20%. Each year the Trustees will review the current position:

- Where the assets are below the level of the capital base, specific advice will be taken on the investment outlook to determine if any action needs to be taken.
- Where the assets exceed the capital base by 25%, such surplus shall be taken into account by the Trustees in applying their distribution policy or in building up the capital base by more than CPI.



Investment strategy

The assets will be invested based on the following long-term benchmark allocation and will generally be maintained within the allowable ranges indicated.

Asset class	Benchmark allocation	Allowable range
Liquidity: Cash	5.0%	0% - 15%
Income: Cash/bonds	30.0%	20% - 60%
Growth: Property/shares	65.0%	25% - 75%

In respect of the above strategy:

- Grants approved but not paid, will be held separately in cash/fixed interest, as appropriate.
- The individual investments will be managed on predominately a “buy and hold” basis. The aim is to construct portfolios of 15 to 25 investments which will be generally “equally” weighted.
- The currency risks of overseas investments shall be hedged around a benchmark position of 50% for shares and fully hedged for bonds. The risks will be managed by 90 day forward currency hedging contracts.

Investment guidelines and requirements

The investment guidelines and requirements are for prudential reasons. Departures require a unanimous decision of the Trustees.

Shares & property

- Investments must be confined to publicly listed, widely-held securities trading in recognised markets. They will initially focus on the Australasia markets. Diversification into the wider overseas markets will only occur when the capital base is above \$5m
- The Foundation should not hold more than 5% of the equity of any one company and no holding in a single company should be over 2% of the value of the Foundation.
- The property assets will be listed securities in the NZ and Australian markets. Direct property investments may only be made with the unanimous consent of the Trustees.

Bonds

- The overall credit grade of the portfolio should be equivalent to at least a Standard & Poors BBB credit rating. When a bond is not formally rated, the level of security must be assessed to have a level of security equal to an investment grade rating
- No holding of a single government issue should exceed 10% of the value of the Foundation and no holding in a single non-government entity should exceed 3% of the value of the Foundation.

Cash

- Cash includes fixed interest investments up to 365 days and shall have a level of security equal to, or better than, a Standard & Poors A1 rating.

General

- All investments must be prudent investments and in accordance with the requirements of the applicable legislation. The Trustees recognise their responsibilities will at times extend beyond pure investment considerations reflecting the Foundation's community purpose.
- Borrowing to invest is prohibited.
- Total holdings (bonds and shares) in any one organisation, other than government bonds, shall not exceed 3% of the value of the Foundation.



- Futures and options may be used for the prudential investment management provided that they are not used for gearing purposes.

Governance & management

The responsibility for the oversight of the investment policies is the Trustees. The Trustees are assisted by an investment consultant and investment managers. Decisions to depart from the policies require a unanimous decision of the Trustees.

Investment consultant

An investment consultant is appointed to assist in the development of the investment policies, to help evaluate the performance and the investment managers, and to provide strategic research and market information. The initial investment consultant is MCA NZ Limited.

Investment managers

External investment professionals (“investment managers”) are appointed to undertake the day-to-day management of the investments. A mandate documents the requirements of the manager in terms of reporting, and the investment guidelines and requirements appropriate to that manager, within the investment policies for the Foundation as a whole.

Monitoring and review

The overall performance of the Foundation will be evaluated on an ongoing basis in terms of return and volatility against the Foundation’s overall performance objectives, the returns of the market and the returns available from cash assets.