Statement of Investment Policies and Objectives

19 November 2014

Ngāti Pāhauwera Development & Tiaki Trusts

Statement of investment policies and objectives

This statement documents the investment policies of the Trustees for the Ngāti Pāhauwera Development & Tiaki Trusts (collectively referred to as the "Trust"). It is the intention of the Trustees to review and update, as appropriate, the policies to reflect the changing investment markets and the investment outcomes required for the Trust's investments.

The statement is set out as follows:

Appendix

Attachments

1. Introduction

Background

1.1 The Trust is a trust with the overriding objective **Te Oranganui o Ngāti Pāhauwera** (to build a strong, healthy, vibrant and prosperous Ngāti Pāhauwera).

1.2 It is the intention to invest the capital of the Trust:

- to generate an increasing income stream to support the agreed social and community objectives, and
- to develop the strategic and other assets of the Trust within the Ngāti Pāhauwera area for future generations, and
- to buy businesses that provide employment and build a stronger economic future for Ngāti Pāhauwera.

Current assets

1.3 The current assets of the Trust have a capital value of approximately $39.2 million (31 March 2014). Several of the investments are strategic investments within the Ngāti Pāhauwera area and would not expect to be sold, and will continue to be developed over time to ensure that the reach their potential.

1.4 The current assets can therefore be considered to be split into strategic assets and non-strategic assets. The non-strategic assets are available for investment in investments where the focus is the return and the wider economic benefit to Ngāti Pāhauwera. The current non-strategic assets are approximately $25 million.

Capital base

1.5 In terms of the assets of the Trust, the "capital base" include the capital settled and gifted to the Trust that is not intended for immediate distribution. The capital base at 1 April 2012 was $39.2 million.

1.6 The capital base figure will be adjusted each year by an amount to calculate the equivalent real value to allow for the effects of the CPI inflation rate. The objective is to maintain assets above this level over the long term.

1.7 At 1 April 2014, the inflation adjusted capital based was $40.1 million.

Taxation

1.8 The Trust has charitable status. As such its investment income is subject to normal taxation rules for entities with charitable status. Therefore the Trust expects not to pay income tax on the investment income earned on the assets. This also means that tax credits (for example imputation credits on NZ shares) do not provide a financial benefit

1.9 The balance date of the Trust is 31 March.

Primary objectives

1.10 The primary objectives underlying the investment policies for the Trust are:

- to ensure that the investable assets of the Trust are invested prudently, consistent with the Trust's purposes;
- to ensure that the strategic assets are managed effectively and developed to reach their potential;
- to maintain over the long term the value of the assets above the Trust's capital base level and to grow such value at such level above the inflation rate as determined by the Trustees from time to time;
- to ensure that money is available for distribution, as required, to meet the granting and distribution policies of the Trustees; and
- to maximise the funds available for distribution and investing within the community over the long-term.

1.11 The primary objectives translate into investment objectives of:

(a) to generate income each year from the investment of the assets, consistent with the intended short-term distribution levels;

(b) subject to (a), to maximise the return available to support the purposes of the Trust, both in the long and short-term;

(c) to grow the assets of the Trust, over the medium-term (5 to 10 years);

(d) within (c), to maximise the long-term value of the assets in real terms.

Investment beliefs

1.12 The investment beliefs of the Trustees, that have determined the investment policies for the Trust, are summarised in appendix A.

Income requirements/grants/distribution policy

1.13 The initial grants policy of the Trust is to make distributions each year equal to a minimum of 3.0% of the investable assets at the start of the year. It is noted that some of the money for distribution may be distributed as cash and leave the Trust and other money may be applied to buy and build businesses and strategic assets that create ongoing economic and/or social benefit to the Ngāti Pāhauwera area.

1.14 The targeted level of distributions will be reviewed from time to time, as market conditions vary, the priorities of the Trustees for the Trust change and opportunities to meet the Trust's purpose arise.

Non-traditional investments

1.15 The Trust may, with the prior approval of the Trustees, invest the investable assets outside the traditional asset classes of cash/bank deposits, bonds, property and shares (including listed shares and private equity). Such assets may be special opportunity investments.

Management

1.16 The responsibility for the implementation of the Trustees' investment policies is that of the directors of the Ngāti Pāhauwera Commercial Development Limited ("NPCDL"). NPDCL will prepare a business plan and budget each year for its operations. It is recognised that NPDCL will use a combination of its resources and the wider resources of the Trust and its staff as appropriate.

1.17 The NPCDL role includes:

- implementing the Trustees' investment policies;
- liaison with the Trust's investment consultant;
- advising the Trustees of required changes to the policies and making them aware of any issues regarding the Trust's assets;
- reporting to the Trustees on the performance of the Trust's assets on a basis agreed with the Trustees.

1.18 Where the investment policies require the approval of the Trustees, it is recognised that such approval may be by a formal resolution of the Trustees at a Trustees' meeting, or by way of written and verbal agreement (including by email) of the individual trustees outside a formal meeting. Where the agreement is outside a formal meeting the subsequent meeting will record the decision.

1.19 Where the investment policies require the Trustees to do something or make a decision, except where the Trustees' approval is required, it is recognised that it is NPCDL that will take the action or make the decision.

Ngāti Pāhauwera community responsibility

1.20 The Trustees recognise that their responsibilities will at times extend beyond pure investment considerations reflecting the Trust's purpose.

1.21 Investments made outside New Zealand will be restricted to countries, companies that operate (within industries and countries) and in ways and have practices that would be lawful in New Zealand and consistent with the Ngāti Pāhauwera guiding principles.

2. Investment performance objectives

Return requirements

2.1 The investment return requirements of the Trustees in respect of its investable assets are to achieve:

Long term (20+ years)

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

Short term

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

Risk profile

2.2 The risk profile of the investment strategy of the Trust will be set to maximise the long-term return within the context of the market environment and risk levels to look to achieve:

- to achieve the long-term objective with 99% confidence (i.e. the rate of failure to meet objectives is 1 long-term period in 100 such periods), and
- to achieve an actual 4% income return over the short-term (1 year) with 95% confidence (i.e. the risk of failure to meet the short-term objective is 1 period in 20 such periods),

and to

- target liquidity equal to 5% of the capital base.

2.3 It is recognised that the strict application of the return and risk profile may not naturally apply to the strategic assets. However it is expected that over the long-term the strategic assets will be consistent with the long term return requirements applicable to the investable assets.

3. Investment strategy

3.1 Given the objectives and nature of the Trust, the investable assets will be invested based on the following long-term policy allocation and will generally be maintained within the ranges indicated. The benchmark and ranges will be reviewed as circumstances change and will be reassessed as appropriate. The next review is due on or prior to 30 June 2018.

Liquidity

3.2 It is expected that the Trust will maintain liquid assets equal to approximately 5% of the capital base and managed within the range of 0% to 15% of the capital base. These assets will be managed in bank deposits and cash investments.

Strategic assets

3.2 Strategic assets and investments that meet normal investment criteria and have an economic benefit to Ngāti Pāhauwera, will have priority over non-strategic investments.

3.3 Strategic assets will initially be maintained at less than 50% of the capital base. However, long term, there is no limit on the level of strategic investments where they meet the normal investment criteria and also provide an economic benefit.

3.4 Decisions to invest in either strategic assets of Ngāti Pāhauwera require the approval of the Trustees.

Investment strategy - other investments

3.5 The residual investments of the Trust will be invested:

Long-term investment strategy		
Asset class	**Benchmark allocation**	**Allowable range**
Liquidity		
Cash	5.0%	0% - 15%
Income		
Cash/bonds	25.0%	10% - 50%
Growth		
Property/shares	70.0%	30% - 80%

3.6 In respect of the above strategy, subject to the prudential investment guidelines set out in section 4 and the risk management policy in section 5, it is noted:

- it is intended that the assets will be managed relative to the benchmark with appropriate rebalancing back to benchmark as required, in the context of the risk management policy.
- shares and property will initially focus on the Australasia markets and the Trustees will only look to diversify into the wider overseas markets when the level of strategic assets and investments with wider economic benefits is understood.

- the NZ bond, property and share assets, and Australian share assets will be managed on predominately a "buy and hold" basis. The long-term aim is to construct portfolios of 15 to 25 shares which will be generally "equally" weighted, and 10 to 20 corporate bonds.
- the NZ bond assets will focus on investment grade corporate debt. It is recognised, given the state of the current markets that the investment in NZ bonds may take several years as currently sufficient suitable corporate bonds do not exist.
- the risks arising from currency movements of overseas shares shall be hedged around a benchmark position of 50% but managed within the currency management policy.
- the risks arising from currency associated with overseas bond investments, if any, shall normally be fully hedged. This will mean that it will be managed within a hedging range of 95% to 105%.
- the property assets will be a combination of listed securities in the NZ and Australian markets together with direct property investments as appropriate.

4. Investment guidelines and requirements

4.1 The following investment guidelines and requirements have been set for prudential reasons to ensure there is an adequate level of security in the investments. They relate to the day-to-day management of the assets and in each case can be deviated from, as appropriate, by a decision of the Trustees.

Shares

4.2 Share investments may be listed or unlisted (i.e. private equity). However, the focus of the share investments is publicly-listed, widely-held securities, trading in recognised markets (for clarification, in New Zealand and Australia this would mean securities listed on the "main boards" of the NZ or Australian Stock Exchanges), or securities that are expected to list within 1 year.

4.3 Except where there is a clear strategic advantage or a special opportunity, non-listed shares should be limited to 20% of the non-strategic assets.

4.4 The Trust should not hold more than 5% of the equity of any one company and no direct holding in a single unlisted company should equate to over 2% of the market value of the Trust's assets.

Property

4.5 Direct property investments outside the Ngāti Pāhauwera area may only be made with the approval of the Trustees.

Bonds

4.6 Bond investments are not limited to government guaranteed investments and in New Zealand should focus on non-government guaranteed securities where appropriate.

4.7 The overall credit grade of the portfolio should be equivalent to at least a Standard & Poors BBB- credit rating.

4.8 When a bond is not formally rated by Standard & Poors, the level of security must be assessed by two brokers/consultants to have a level of security equal to the relevant investment grade rating. All such security holdings must be notified to the Trustees.

4.8 No holding of a single government issue should exceed 10% of the market value of the Trust's assets.

4.9 No holding in a single non-government entity should exceed 3% of the market value of the Trusts' assets.

Cash

4.10 Cash and cash equivalent investments, with a maximum duration of 365 days, shall be invested with organisations with a level of security equal to, or better than, a Standard & Poors A1 rating or a Moody's P1 rating.

Currency

4.11 Where risks arising from currency associated with overseas investments where managed will be managed by 90 day forward currency hedging contracts.

General

4.12 All investments must be prudent investments and shall be made in accordance with the requirements of the applicable legislation.

4.13 No constraints are placed on an appointed manager's ability to raise cash for the management of short-term cash flow transactions that relate to the Trust, provided that borrowing for this purpose in any investment sector may not without the approval of the Trustees:

- Exceed 5% of the market value of the assets of that sector held by that manager,
- Be for a period greater than one week.

4.14 Borrowing for other purposes is prohibited without the approval of the Trustees.

4.15 Investments in assets other than those contemplated by this policy statement are not permitted.

4.16 Total holdings (bonds and shares) in any one organisation, other than government bonds, shall not exceed 3% of the market value of the Trust's assets.

4.17 Futures and options may be used for the prudential investment management of the Trust's assets, provided that such investments are not used for gearing purposes.

Pooled investments

4.18 Where the Trustees determine that an appropriate investment vehicle is a pooled investment arrangement, they recognise that the strict application of the investment guidelines and requirements may not be possible, or be in the overall best interests of the Trust. Where such a vehicle is used, the manager of the pooled arrangement shall be required to disclose to the Trustees, as soon as practicable, details of any investment that materially falls outside the guidelines and requirements so that the Trustees, can continually reassess the overall suitability of such an investment vehicle.

5. Risk management

5.1 It is noted that the Trust's assets are exposed to different investment risks that will lead to variations in the actual short-term return versus expected average return. To reduce the potential negative effects of these risks on the Trust's distributions, the Trustees have put in place risk management policies and principles. Current details of the risk management policies and principles are set out in appendix B.

5.2 In addition, the following policies apply:

- The Trustees meet regularly and investment performance and outlook is a specific agenda item;
- A comprehensive investment reporting process applies;
- An investment consultant is used;
- Professional investment managers/brokers are used where appropriate;
- The strategic investment policies are subject to a three yearly review;
- The movement of money between managers and investments requires two authorised signatures.

5.3 The risk management policies will be reviewed from time to time in light of the Trustees' overall strategies, to confirm their ongoing appropriateness.

Currency management policy

5.4 As part of the Trust's risk management policy, where the Trust invests in markets outside Australasia, the Trustees operate a currency management policy. Details of the current currency policy are set out in appendix B.

6. Monitoring and review

6.1 The overall performance of the Trust will be evaluated on an ongoing basis in terms of return and volatility against:

- the Trust's overall performance objectives, as identified in section 2, and
- the return, after expenses, of a portfolio with the benchmark asset allocation invested in the market indices used to review the individual asset sector returns.
- the risk-free rate of return as measured by the NZX 90 Day Bank Bill Index.
- such other objectives as determined by the Trustees from time-to-time.

6.2 The performance of each sector will be evaluated on a return and volatility basis over the period indicated against the return of the appropriate market index.

Sector	Market index#	Evaluation period
Fixed income		
Cash	ANZ 90 Day Bank Bill Index	1 year
Overseas bonds	Citigroup World Bond Index (hedged)	3 years
NZ bonds	ANZ NZ Government Bond Index	3 years
Shares		
NZ	NZSX 50 Index	5 years
Australian	ASX 200 (NZD) Index	5 years
Overseas	MSCI appropriately adjusted for hedging	5 years
Property	NZSX Property Index	5 years

 # Each index will be adjusted for tax slippage as appropriate.(e.g. imputation credits) to make the comparison fair.

7. Investment consultant and managers

Appointment of investment consultant

7.1 The Trustees believe that an investment consultant should be retained to assist the Trustees develop their investment policies, to help evaluate the performance of the Trust and the investment managers, and to provide strategic research and market information. The initial investment consultant is MCA NZ Limited. The roles of the investment consultant are set out below.

7.2 The appointed investment consultant, in terms of clause 7.1, is responsible to the Trustees for:

- assisting the Trustees review and develop the Trust's investment policies;
- evaluating the ongoing appropriateness of the long-term investment strategy relative to the investment objectives;
- monitoring the Trust's progress towards achieving its overall investment objectives over the long term;
- monitoring any investment manager's performance in terms of the Trustees' evaluation policy and the investment managers' mandates;
- advising the Trustees in the way in which the Trust's assets should be invested given market changes, including legislation changes and trends;
- ensuring that any appointed investment manager manages the assets under their care in terms of the mandate given;
- advising the Trustees on the need for changes to their policies or the implementation of their policies;
- monitoring the Trust's risk management policy including currency policy;
- providing Trustee education and training as requested.

Reports

7.3 In terms of its responsibilities the investment consultant is expected to provide reports as appropriate covering:

- a consolidated report showing asset levels, returns and strategies of the managers;
- attribution analysis which shows where the Trust added value for the period, year-to-date and recent history;
- a risk management report showing the current position of the overseas markets, interest rates and exchange rate;
- any relevant commentaries from investment managers and consultants in the market;
- "market intelligence" in terms of changes to the manager that may have an impact on the quality of the future performance;

and as required or requested:

- reports or letters addressing topical issues and any questions raised by the Trustees.

Performance evaluation

7.4 The investment consultant shall be formally evaluated, as required, by the Trustees in terms of the advice and service given and the suitability of the resources available to continually assist the Trustees. It is expected that such evaluation will occur, in the absence of an earlier specific need, on a five yearly basis. The first review will be targeted to take place in 2017.

Appointment of investment managers

7.5 The Trustees' policy is that at times external investment professionals ("investment managers") should be appointed to undertake the day-to-day management of the non-strategic investments for both the domestic and overseas markets.

7.6 Where investment managers are appointed, a mandate will document the requirements of the manager in terms of performance evaluation, reporting, and the investment guidelines and requirements appropriate to that manager, within the guidelines of the Trustees as a whole.

7.7 No investment manager appointed by the Trustees may:

(a) hold, without prior disclosure to the Trustees, any investment in its own company, its parent or any subsidiary and must disclose any investment in associated companies;

(b) delegate to another investment manager on terms other than in accordance with these guidelines.

7.8 Where appropriate, investment managers will be delegated full discretion to exercise all voting rights, including, but not limited to, voting proxies. Investment managers must exercise these voting rights in the best interests of the Trust.

7.9 The Trustees may change investment manager(s) from time-to-time as they see fit at their sole discretion.

Performance evaluation

7.10 Each investment manager's performance will be monitored throughout each year and formally evaluated annually against:

(a) the performance objectives set out in the manager's mandate and the evaluation criteria, and

(b) such other objectives as agreed between the Trustees and the investment manager from time-to-time.

Investment manager reporting

7.11 Each investment manager will be required to prepare and submit written and verbal reports as follows:

(a) the reporting requirements as set out in the manager's mandate as appropriate, and

(b) as requested by the Trustees:

- details of the manager's investment management structure, decision making process, investment philosophy, and investment personnel;
- recommendations on the manager's mandate;
- such other information that is required by the Trustees in their day-to-day activities which it is reasonable to ask the manager to provide.

Appendix A – Investment beliefs

The beliefs of the Trustees that underpin the investment policies to achieve the primary objectives include:

1. The long-term return is determined primarily by the investment strategy (mix of cash, bonds, property and shares) and the general market returns.
2. The short term return is primarily driven by market events.
3. There exists an equity, property and bond risk premium and the risk premium is material. The true risk premium only emerges over the long term.
4. The value of an asset returns to its fair value over time, but actual values may be away from fair values for long periods of time. "Fair" value is driven long-term, by economic and financial fundamentals.
5. You are not rewarded long-term, on average, for something that can be diversified away.
6. Markets are generally efficient but may not be right.
7. Some investors have specific and inflexible time frames. It is possible to exploit these.
8. Currency rates are not predictable in the short term. Currency trends around a long-term equilibrium unless there is a fundamental market change.
9. Most managers do not add value after costs and to compensate for the third party risk.
10. Differences in returns relative to benchmarks are explained more often by policy and mandate differences, and not manager skill and judgement.
11. Managers depend on people. Few managers have a sufficient concentration of smart people.
12. Managers will not generally outperform the market in the long term. There are some active managers who may outperform the market in the short term where they have an information advantage and the costs of management and third party risks do not negate the benefit.
13. Costs matter. The only returns that matter are the after-costs-net-return.
14. Investors get a better return over time by:
    i. Taking a long term view;
    ii. But being willing to make decisions;
    iii. Focusing on managing costs;
    iv. Keeping things simple and avoiding complex investments;
    v. Managing risks.
15. The alignment of the income and growth with the needs of the Trust is important.
16. Risk leads to short term volatility. Risk is best managed by diversification. Diversification lowers risk.
17. Illiquidity is a risk that is compensated by the market.
18. Risk and return are related in the long term.
19. Risk factors are not constant over time.

Appendix B - risk management

B.1 Details of the Trustees' risk management policies in respect of the risks noted are:

Type of risk	Definition	Trust's management policies
Interest rate risk	The risk that the value of a security, particularly a bond, will temporarily decrease in value as a result of a rise in interest rates.	• Bonds are generally held to maturity. Such temporary decreases are therefore unrealised and reversed prior to maturity. • Bond holdings are diversified by maturity date. • The cash levels are set to minimise the potential to be forced to realise a bond to meet a distribution need.
Re-investment risk	The risk that interest, or dividends, received from an investment may not be able to be re-invested in such a way that they earn the same or higher rate of return as the investment that generated them. Also, that at the time an investment matures, interest rates have fallen preventing the capital to be re-invested at the same yield.	• Interest and dividends are generally paid to the Trust's cash portfolio for distribution, and are not for re-investment, purposes. • Bonds are structured to diversify by duration and minimise the level of investments that mature at any point in time. • New investments can be deferred if interest rates are low.
Default risk	The possibility that an issuer of a bond will fail to make a principal and/or interest payment in a timely manner on the due date.	• Bond investments are restricted to investment grade or better, or their equivalent. • Investments are diversified over a range of companies, industries and maturities. • Exposure to any one issuer is limited. • The reporting requirements require commentary on the potential for default.
Currency risk	The risk that changes in exchange rates will reduce the value of the assets.	• Currency risks from shares are hedged within controlled limits and managed with a currency policy. • Where the outlook is uncertain and negative, currency risks are fully hedged as part of the Trust's currency policy. • Currency risks from bond investments are fully hedged.

Type of risk	Definition	Trust policies
Inflation risk	The risk that inflation increases the size of the targeted distributions. The risk that a high level of inflation makes unexpected significant demands for capital base increases.	• Part of the assets are invested in shares, property and other real assets that provide a potential hedge against inflation. • Part of the assets will at times be invested offshore and unhedged. This provides a potential hedge against imported inflation.
Market volatility	The risk that the investments will decrease in value with general market movements over the short-term.	• Investments are spread across the asset classes, countries, industries and companies. • Cash holdings are set to limit the need to realise assets and therefore market volatility, does not impact on short-term distributions. • The smoothing policy helps minimise the impact of market volatility on distributions. • Cash holdings are increased as opportunities arise to ensure that assets need not be sold for distributions.
Market downturn risk	The risk that the markets suffer a severe and prolonged period of negative performance.	• Cash and bonds assets are held to ensure that distributions can be maintained short-term. • Share assets are diversified across the economic regions of the world. • Interest and dividends are taken as cash and not automatically reinvested. • The Trustees seek specific advice on the market outlook as required but at least annually.
Manager risk	The risk that the discretionary active decisions of a single manager prove to be wrong or that the manager fails.	• Where discretionary decisions are delegated, a specific mandate documents their application. • The exposure to any single manager is limited. • Assets are always held separate to a manager's own assets and held under Trust.
Timing risk	The risk that investments are made as the market is about to fall, or sold as the markets are about to rise.	• Money is moved into new investments of volatile asset classes over time in multiples typically no more than 5%.

Foreign currency exchange rate exposure management policy

B.3 The Trust's foreign currency exchange rate exposure management policy looks to set the actual hedging level relative to that shown below:

Currency level relative to the long-term average level	Medium term trend/momentum	
	Upwards	Downwards
Above +2 standard deviations	50% hedging	0% hedging
+1 to +2 standard deviations	75% hedging	0% hedging
0 to +1 standard deviations	100% hedging	0% hedging
-1 to 0 standard deviations	100% hedging	25% hedging
-2 to -1 standard deviations	100% hedging	50% hedging
below -2 standard deviations	100% hedging	75% hedging

B.3 The above is a simple view. In practice its application is not expected to be as precise or uniform as implied. Distribution considerations may result in different hedging level positions. Also, the risk management policy would not normally result in a dramatic shift or change.

Appendix C - Temporary departures from this statement

C.1 The Trustees recognise that from time to time circumstances will occur which require a departure from the guidelines set out in this statement. Any such departure requires the prior approval of the Trustees. Current temporary departures are:

- It is recognised that it is not currently possible to implement a bond portfolio without compromising the interest yield. As a consequence the level of cash is currently higher than normal. Ultimately the level of property/shares will be higher unless the bond yields return to normal.