NGĀTI PĀHAUWERA Development Trust

Statement of Investment Policies and Objectives

March 2018

NPDT Trustee Hui of
30 January 2018
Resolved and amended from 2014.

NGĀTI PĀHAUWERA Development Trust

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: Page

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Management

The responsibility for the implementation of the investment policies is that of the directors of the Ngāti Pāhauwera Commercial Development Limited (NPCDL). NPDCL will maintain 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.

The NPCDL role includes:

- implementing the Trustees' investment policies;
- liaison with the NPDT's investment consultant;
- advising the Trustees of required changes to the policies and making them aware of any issues regarding the Trust's assets;

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.

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 who will take the action or make the decision.

1. Introduction

Background

1.1 The Ngati Pahauwera Development Trust (**NPDT**) has the overriding objective **Te Oranganui o Ngāti Pāhauwera** (to build a strong, healthy, vibrant and prosperous Ngāti Pāhauwera). NPDT is administrated by its trustees (**Trustees**).

1.2 The objective is to invest the capital of NPDT, to improve economic, environmental and social outcomes for future generations. It is the intention to achieve this by:

- Generating an increasing income stream to support the agreed social and community objectives, and as appropriate
- Owning and building businesses that provide employment and build a stronger economic future for Ngāti Pāhauwera.

Assets

1.3 The assets of NPDT have a total value of approximately $54.9 million as at 30 June 2017 [$46.9 million 30 June 2016]. These assets fall into strategic assets non-strategic assets.

1.4 Strategic assets are generally associated with land within the Ngāti Pāhauwera area. The Trustees have decreed that such investments will never be sold. Details of the strategic assets are set out in appendix C. The current value of the strategic assets is $32.5 million.

1.5 Non-strategic assets are investible assets for which the investment focus is on the investment return and the wider economic benefit to Ngati Pahauwera. The current value of the non-strategic assets is $22.4 million.

Base capital

1.6 In terms of the assets of NPDT, the "base capital" includes the capital settled and gifted to the Trust. The base capital at 1 April 2012 was $42,958,929 ($42.96 million).

1.7 The base capital figure will be adjusted from time to time (normally each year) to increase the value to reflect the effects of inflation over the long-term. The objective is to maintain the value of the assets above this level.

1.8 At 1 July 2017, the inflation adjusted base capital was $45.09 million.

Taxation

1.9 NPDT and NPDCL have charitable status and NPDT's investment income is subject to normal taxation rules for entities with charitable status. The Trustees do not expect to pay 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.

1.10 The balance date of NPDT is 30 June.

Primary objectives

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

- to ensure that the investable assets of the Trust are invested prudently and consistent with the Trust's purposes;
- to ensure that the strategic assets are managed effectively and developed to reach their optimum potential;
- to maintain and grow the asset base of the Trust over the long term at a rate greater than the level of inflation;
- 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 invested within the community over the long-term.

1.12 The primary objectives translate into investment objectives for the management of the assets of:

(a) to generate income each year consistent with the budgeted short-term distribution levels;

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

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

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

Income requirements

1.13 The requirements of the Trustees each year is to have cash available for meeting the costs of the Trust and for distribution, equal to 3% of the base capital at the beginning of the year. The Trustees may choose to distribute monies by cash or through other means (such as asset purchases) that will create ongoing economic and/or social benefits to Ngāti Pāhauwera.

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

Investment beliefs

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

Ngāti Pāhauwera community responsibility

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

1.17 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.

Permitted investments

1.18 NPDT may invest the investible assets, at its discretion, in the traditional asset classes of cash/bank deposits, bonds, property and shares (including listed shares and private equity). With the prior approval of the Trustees, in assets outside the traditional asset classes. Such assets may be special opportunity investments.

Risk management

1.19 It is noted that NPDT'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 NPDT'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.

2. Investment return objectives

Return requirements

2.1 The investment return requirements of the Trustees in respect of the 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).

2.2 In achieving the return objectives, the Trustees will:

Liquidity

- Ensure that NPDT is not forced to sell an investment, or other key asset at a loss, to be able to make a budgeted grant.

Minimum return

- Tolerate an occasional “bad” year, such that the minimum investment income available is $0.8m in 2017/2018 dollars. Any shortfall in income will be funded from cash reserves.

Risk profile

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 adjusted for the nature of the strategic assets.

3. Investment strategy

3.1 Given the objectives and nature of NPDT, the investable assets will be invested based on the long-term investment 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 2020.

Liquidity

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

Strategic assets

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

3.4 Long term, there is no limit on the level of strategic investments where they meet the normal investment criteria and provide an economic benefit.

3.5 Decisions to invest in strategic assets for Ngāti Pāhauwera require the approval of the Trustees.

Investment strategy – other investments

3.6 The capital of the Trust outside the strategic assets will be invested:

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

3.7 Subject to the prudential investment guidelines (section 4) and the risk management policy (appendix B), it is noted:

- it is intended that the assets will be managed relative to the benchmark in the context of the risk management policy.
- Property/shares will have a bias to the Australasian markets where there is an information advantage.

- the investments will be managed on predominately a "buy and hold" basis. The long-term aim is to construct portfolios of 15 to 25 shares for each market and which will be generally "equally" weighted, and 10 to 20 corporate bonds.
- the NZ bond assets will focus on investment grade corporate debt.
- 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).

4.3 NPDT should not hold more than 5% of the equity of any one listed company. The focus 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).

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

Property

4.5 Direct land 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.

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

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

Cash

4.11 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

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

General

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

4.14 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 NPDT, 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.

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

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

4.17 Total holdings (bonds and shares) in any one organisation, other than government bonds, shall not exceed 5% of the market value of the Trust's assets.

4.18 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

4.19 Where an appropriate investment vehicle is a pooled investment arrangement, it is recognised 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. Monitoring and review

5.1 The overall performance of NPDT will be evaluated on an ongoing basis in terms of return and volatility against:

- NPDT'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 S&P/NZX Bank Bill 90-Day Index.
- such other objectives as determined by the Trustees from time-to-time.

5.2 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	S&P/NZX ANZ Bank Bill 90-Day Index	1 year
Overseas bonds	Citigroup World Bond Index (hedged)	3 years
NZ bonds	S&P/NZX Government Bond Index	3 years
Shares		
NZ	S&P/NZX 50 Index	5 years
Australian	S&P/ASX 200 (NZD) Index	5 years
Overseas	MSCI appropriately adjusted for hedging	5 years
Property	S&P/NZX Property Index	5 years
# Each index will be adjusted for tax slippage as appropriate (e.g. imputation credits).		

6. Investment consultant and managers

Appointment of investment consultant

6.1 The Trustees believe that an investment consultant should be retained to assist the Trustees develop their investment policies, to help evaluate the performance of NPDT 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.

6.2 The appointed investment consultant, in terms of clause 6.1, is responsible to the Trustees for:

- assisting the Trustees review and develop NPDT's investment policies;
- evaluating the ongoing appropriateness of the long-term investment strategy relative to the investment objectives;
- monitoring progress towards achieving NPDT's 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 NPDT's assets should be invested given market changes, including legislation changes and trends;
- advising the Trustees on the need for changes to their policies or the implementation of their policies;
- monitoring the Trustees' risk management policies;
- providing trustee education and training as requested.

6.3 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 2020.

Reports

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

- a consolidated report showing asset levels, returns and strategy;
- 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.

Appointment of investment managers

6.5 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.

6.6 Where an investment manager is 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.

6.7 No investment manager appointed 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.

6.8 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 NPDT.

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

6.10 Each investment manager's performance will be monitored throughout each year and formally evaluated annually against the performance objectives set out in the manager's mandate and such other objectives as agreed between the Trustees and the investment manager from time-to-time.

Investment manager reporting

6.11 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 influenced by the market reaction to 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	• 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 base capital 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.2 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 – Strategic assets & temporary departures from this statement

Strategic assets

C.1 The strategic assets are:

- The farm land known as Pihanui, Rawhiti, Omahara, Chimney Creek and Kakariki.
- The Sims road block.

Temporary departures from this statement

C.2 The Trustees recognise that from time to time circumstances will occur which require a departure from the guidelines set out in this statement. 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.
- Currency hedging in respect of the currency risks on the overseas shares portfolio is not expected to be undertaken until the value of the overseas share portfolio exceeds $4m.