Community Trust South
TE POU ARATAKI POUNAMU O MURIHIKU

Statement of Investment Policies and Objectives

for

Community Trust South

Adopted by the Trustees on
7 October 2020

Prepared by

Aon NZ

1 Introduction

1.1 PURPOSE

The purpose of this Statement of Investment Policy and Objectives (SIPO) is to document the decisions of the Trustees in respect of the investment of the assets of Community Trust South (the "Trust").

This document provides all parties involved in the management of the assets of the Trust (the "Portfolio") with a working document that clearly identifies the investment objectives, investment strategy, performance measurement criteria and the constraints to be observed.

The investment management process is to be implemented in accordance with:

- the Trust Deed; and
- the Trustee Act 1956, especially the Prudent Person requirements of that Act

1.2 RESPONSIBILITIES

The Trustees are responsible for the investment of the Portfolio. The Trustees shall:

- determine the long-term objectives for investment of the Portfolio,
- determine the investment strategy for the Portfolio, including setting the benchmark asset allocation and trading ranges;
- determine the number of investment managers to be used and appoint the investment managers; and
- appoint an Investment Committee and an external Investment Consultant to perform the functions set out below;

The Investment Committee shall:

- make recommendations to the Trustees on the long-term objectives for investment of the Portfolio;

- make recommendations to the Trustees on the investment strategy for the Portfolio, which includes the benchmark asset allocation and trading ranges;
- make recommendations to the Trustees on the number of investment managers to be used and on the appointment of investment managers;
- determine the guidelines and constraints for the investment managers for the management of the assets;
- establish performance objectives for the investment managers;
- monitor the performance of the investment managers against their performance objectives;
- monitor the performance of the Portfolio against its long-term objectives;
- ensure that the assets of the Trust are invested in accordance with the SIPO; and
- review this SIPO at least every year.

The Investment Consultant shall:

- provide advice to the Trustees and the Investment Committee on:
  - the appropriate investment strategy for the Portfolio;
  - the selection of appropriate investment managers;
  - the performance of the Portfolio towards its long term objectives and the investment managers' performance against their performance objectives;
  - periodic rebalancing of the Portfolio relative to the benchmark asset allocation;
  - any changes that affect the way the Portfolio is or should be invested
- provide monthly reports to the Investment Committee assessing the performance of the Portfolio against its long-term objectives and the investment managers against their performance targets;
- participate with the Investment Committee in the regular review of this SIPO.

The Investment Managers shall:

- invest the assets of the Trust in accordance with the agreed mandates;
- provide such reporting as is agreed with the Trustees;
- advise the Trustees in writing of any changes in the investment objectives, guidelines or constraints of any pooled investment vehicle in which the Portfolio is invested;
- as requested by the Trustees, attend meetings of the Investment Committee to discuss investment performance.

The General Manager is responsible for the implementation of the investment strategy in accordance with the SIPO.

1.3 SIPO REVIEW

This SIPO will be formally reviewed at least annually, taking into account a number of factors including changes in investment markets and in investment opportunities, or changes to investment managers. An ad hoc review may be initiated if the Trustees deem it appropriate.

Any changes to the SIPO must be approved by the Trustees.

2 Description of the Trust

2.1 BACKGROUND

The Trust is a community owned grant-making organisation created from the community's former ownership of Trust Bank Southland. The sale of the shareholding in the Bank in 1996 formed the basis of the Portfolio.

The Trust supports charitable or non-profit groups and organisations in the Southland province and the Queenstown, Glenorchy, Arrowtown, Tapanui and Heriot areas, by giving grants and scholarships for projects, initiatives and services which benefit the community.

By protecting the Portfolio and being responsible when grant making, the Trust is expected to continue indefinitely.

2.2 ASSETS

The current assets available for investment are approximately $224m (31 October 2020).

The capital base of the Trust was set at $158.46m as at April 1996. The capital base is adjusted each year to allow for the effects of inflation.

The current target for the inflation adjusted capital base of the Trust is $254m (as at 31 October 2020).

2.3 TAXATION

The Trust's investment income is subject to taxation rules for Community Trusts and therefore the Trust does not expect to pay New Zealand income tax on the investment income earned on the assets.

3 Investment Philosophy

The Trustees' investment philosophy is framed by a set of fundamental beliefs:

- Risk and return are related in the long term. Investment in high-risk asset classes will produce higher returns over the long term, with a greater chance of a negative return over the short term.
- Diversification is an important source of risk reduction.
- Asset allocation is the most important determinant of long term investment performance in a diversified portfolio.
- It is hard to increase portfolio returns through tactical asset allocation, and very few investors can do it consistently but prevailing market conditions do influence future returns.
- Exchange rates are not predictable in the short term but can be observed to trend around a long-term equilibrium.
- Investment returns are made up of income (dividend and coupon payments) and growth (capital gains), but it is the total return on the portfolio that matters in the long term.
- Long term investors can enhance returns through accessing the liquidity premium.
- A responsible and sustainable investment approach is important for an investor who is investing inter-generationally. In the long term, companies with strong Environmental, Social and Governance (ESG) practises perform better than those without.
- Investment markets are not perfectly efficient, so skilled active managers can theoretically provide higher gross returns than a passive approach over the long term.
- The role of bonds in a well-diversified portfolio is to provide regular income and liquidity and to reduce volatility.

4 Investment Objectives

4.1 INVESTMENT POLICY OBJECTIVES

1. To generate sufficient returns (from dividend and interest income and from capital gains) to allow the Trust to meet its budgeted distributions and expenses.
2. To grow the Portfolio value in excess of inflation in order to restore it to the inflation-adjusted capital base level over the long term.
3. Once the inflation-adjusted capital base has been restored, the Trustees will seek to build, and then to maintain, an "investment fluctuation reserve" over and above the capital base. The Trustees will seek to maintain the investment fluctuation reserves at an optimal level of 10% above the adjusted capital base.

4.2 INVESTMENT PERFORMANCE OBJECTIVES

The primary performance objective is to achieve a total return (after investment management fees) which is 4.0% in excess of inflation, as measured by the CPI, over rolling 10-year periods.

The Trustees acknowledge that this is a long-term objective and the Portfolio will be subject to short term volatility. A negative return can be expected to occur one year in every five years on average.

A secondary objective is to achieve a total return (after investment management fees) which exceeds the Benchmark Return (outlined in 4.3 below) by 0.7% p.a. over rolling three-year periods.

4.3 BENCHMARK RETURN

The benchmark return is calculated as the return (before tax and investment management fees) that would have been earned had the assets been invested according to the Benchmark Asset Allocation outlined in Section 5.2 and each asset class had earned the return of the index specified in 4.4 below.

4.4 INDICES

The capital market indices to be used by the Trust are shown in the following table:

Asset Class	Index
Domestic Shares	S&P/NZX 50 Index
Private Equity	n/a
Global Shares	MSCI All Countries World Index, 50% hedged to NZ$
Global Listed Property	FTSE EPRA/NAREIT Developed Index - 100% hedged to NZ$
Global Listed Infrastructure	DJ Brookfield Global Infrastructure Index - 100% Hedged
Growth Alternatives	S&P/NZX Bank Bills 90-Day Index + 4%
NZ Cash	S&P/NZX Bank Bills 90-Day Index
NZ Bonds	S&P/NZX NZ Government Bond Index
Global Bonds	Bloomberg Barclays Capital Global Aggregate Index (100% hedged into NZD)

These indices may differ from those used by the appointed investment manager.

4.5 INVESTMENT MANAGERS' PERFORMANCE OBJECTIVES

The performance objectives for investment managers are as follows:

Asset Class	Performance Target (after fees)
Domestic Shares	2% p.a. above index
NZ Private Equity	15% p.a.
Global Shares	1% p.a. above index
Global Listed Property	1% p.a. above index
Global Listed Infrastructure	1% p.a. above index
Growth Alternatives	above index
NZ Cash	above index
NZ Bonds	0.4% p.a. above index
Global Bonds	0.4% p.a. above index

Performance will be considered unsatisfactory if the Performance Target is not met over the life of the product for a Private Equity fund over rolling 12-month periods for Cash and over rolling three-year periods for all other asset classes.

5 Investment Strategy

5.1 INVESTMENT MANAGERS

The Trustees' policy is that external investment professionals (the "Investment Managers") will manage the assets of the Trust and the Trustees have appointed a range of Investment Managers in specialist sector mandates. The Investment Managers have been selected for each sector based on their perceived ability to meet the performance targets.

The Trustees take advice from the Investment Committee and the Consultant in the selection and monitoring of the Investment Managers.

The Investment Managers will make all day to day investment decisions, subject to constraints imposed by the Trustees in Section 6 and any other internal constraints.

5.2 BENCHMARK ASSET ALLOCATION

Given the objectives and the nature of the Trust, the capital will be invested based on the following long-term Benchmark Asset Allocation.

Sector	Benchmark	Range
Growth Assets	**65%**	**57.5% - 72.5%**
Domestic Shares	12.5%	9% - 16%
NZ Private Equity*	10%	5% - 15%
Global Shares	30%	26% - 34%
Infrastructure/Property	12.5%	10% - 15%
Income Assets	**35%**	**27.5% - 42.5%**
NZ Cash	5%	4% - 10%
NZ Bonds	7.5%	5% - 10%
Global Bonds	12.5%	10% - 15%
NZ Loan	10%	0% - 10%

**The private equity allocation has a broader trading range due to the illiquid nature of these investments*

The asset allocation of the Portfolio will generally be maintained within the ranges indicated in the table above in regular market conditions. However, if the Trust is disinvesting out of a particular investment during a period of distressed market conditions, the disinvested cash could be held in cash, bonds or an approved low risk alternative for a period of up to 6 months (i.e. an extended transition period) before either being reinvested into the same sector, or a potential revision of the SIPO. Distressed market conditions is defined as a fall of greater than 10% in any index set out in section 4.4 over a period of three months or less. Under these circumstances, any variation of up to 10% of capital outside the above permitted trading ranges caused by this extended transition is permissible.

5.3 TACTICAL ASSET ALLOCATION

The asset allocation of the Portfolio will generally be maintained within the ranges indicated in the table above.

The Trustees will not seek to enhance Portfolio returns through the use of Tactical Asset Allocation, however prevailing market conditions may be taken into account when implementing portfolio changes or managing cash flows.

5.4 PERMITTED INVESTMENTS

Subject to the Responsible Investment Policy set out in Section 6.1, the Investment Managers may invest in a broad range of Shares, Fixed Interest Investments, Property, Infrastructure, Cash and in Managed Funds. Securities may be listed or unlisted, and the Investment Managers may borrow, short-sell securities and use Derivative Products. Each Investment manager will operate within their own individual investment mandate approved by the Trustees.

5.5 INVESTMENT STRATEGY REVIEW

The Trustees, with advice from the Investment Committee and the Consultant, review the appropriateness of the Investment Strategy on an on-going basis.

The Benchmark Asset Allocation will be formally reviewed at least every three years. An ad hoc review may be initiated if the Trustees deem it to be appropriate as a result of factors such as changes in investment markets or in the objectives of the Trust. The Benchmark Asset Allocation was last reviewed in April 2020.

6 Investment Policies

6.1 RESPONSIBLE INVESTMENT POLICY

The Trustees acknowledge that they are acting as a trustee for the beneficiaries of Community Trust South (the Trust), being the community within our area, and therefore should endeavour at all times to ensure that funds of the Trust are invested in a manner that is consistent with the values of that community.

At the same time, the Trustees are aware that they have a fiduciary responsibility to seek to maximise the investment returns on the Portfolio, subject to appropriate risk constraints. As a general policy, the Trust will not invest in any product where it is expected that doing so would have a significant detrimental impact on the Trust's investment performance.

Furthermore, the Trustees acknowledge that there are limitations on their ability to exclude any specific investments from the Portfolio, in particular where investment is through a pooled vehicle.

The Trustees believe that, over the long term, companies with strong Environmental, Social and Governance (ESG) practices will perform better than those without, since ESG factors have the potential to be significant drivers or barriers to profitability and shareholder value. This investment belief has been increasingly supported by empirical analysis globally over recent years, including improved investment returns and positive impact on company performance from engagement.

Therefore, the Trustees believe that including ESG issues in their investment process is consistent with their objectives as a long-term investor and also with their fiduciary duties and responsibilities to beneficiaries.

The integration of ESG in the investment process does not necessarily mean the exclusion of particular companies or sectors from the Portfolio on ethical grounds, as this method is not seen as an efficient or an effective strategy for dealing with ESG issues. Rather, the Trustees seek to employ managers who incorporate ESG into their company analysis and who actively engage with companies on ESG issues.

However, the Trustees acknowledge that there may be some circumstances in which it is appropriate to consider exclusions of a sector or a specific stock. In particular, the Trustees expect any appointed manager to avoid investing in any company whose activities would be deemed to be unlawful under New Zealand law, notwithstanding that the investment might be domiciled in another country.

6.2 HEDGING POLICY

The Trustees believe that within the Global Share portfolio, some currency exposure is desirable as it can lead to increased diversification; however, for New Zealand based investors there is a premium to be earned by hedging currency exposure. Therefore, the Trustees have determined that the benchmark position for Global Shares is to be 50% hedged.

For all other asset classes the benchmark position is to be 100% hedged, however the Investment Managers may be permitted to take currency risk within their portfolios in order to seek to outperform the benchmark.

6.3 MARKET AND CREDIT RISK MANAGEMENT POLICY

Market risk is mitigated by having a Benchmark Asset Allocation for the Portfolio which is consistent with the objectives for the Trust.

Assets are diversified across a range of asset classes and a wide range of securities is required to be held by each Investment Manager, resulting in a diversified portfolio with limited risk to any single investment.

Except where there is a clear strategic advantage (for example in the Private Equity portfolio), the Trust should hold no more than 2% of the equity of any one company and no holding in a single company should equal more than 2% of the market value of the Portfolio.

6.4 REGIONAL INVESTMENT POLICY

In allocating the assets of the Trust between, and within, the investment sectors it is recognised that the Trust has made a commitment to invest up to $20m with Invest South and that this investment forms part of the Portfolio's allocation to the Private Equity sector. These funds are to be invested in accordance with the Memorandum of Understanding between the Trust and Invest South.

Impact Investments will be regional by nature and will increase the geographical concentration risk of investments. This risk will be considered as part of the Impact Investing Policy.

7 Performance Measurement

7.1 MONTHLY MONITORING

The performance of both the Trust towards its long-term objectives and the Investment Managers against their performance targets will be monitored monthly by the Consultant with the assistance of the Investment Managers.

The reports will consider the following:

- the investment performance of the Portfolio relative to the long-term investment objectives of the Trust;
- the investment performance of the Investment Managers against the agreed targets;
- an assessment of the performance of the Investment Managers relative to other New Zealand based wholesale investment managers;
- the asset allocation of the Portfolio relative to the agreed Benchmark Asset Allocation; and
- any other information that would assist the Trustees in understanding further the performance of the Portfolio or the Investment Managers.

7.2 SATISFACTORY PERFORMANCE

The performance of the Investment Managers will be considered unsatisfactory if it fails to meet the investment objectives in Section 4.5.

The Investment Managers' performance is to be measured over rolling periods and will take in account matters considered relevant by the Trustees including the specific mandate agreed with each Investment Manager. The Trustees do not guarantee that any Investment Manager will be appointed for any specific time, irrespective of this measurement period.