



Statement of Investment Policies and Objectives

Background

Momentum Waikato is a community foundation with the following core purpose:

“To grow a perpetual fund to support projects of regional significance for inter-generational benefit”

It provides a vehicle for individuals, families, companies and groups to endow local community projects and causes of inter-generational significance. Donations and legacies given to the Foundation are invested in perpetuity with income being distributed to designated causes and organisations.

The donations and legacies form the “capital base” or “corpus”. Each year the corpus is adjusted by the general inflation rate to ensure that the capital base is maintained and preserved in real terms.

The Foundation expects to receive donations and legacies with specific management and distribution instructions. Specially “tagged” donations and bequests will be managed according to the specific wishes of the donor, where practicable managing these funds closely in accordance with the principles set out below.

All other funds will form a permanent and enduring part of the General Corpus, and will be managed strictly according to the principles set out below.

The primary objectives underlying investment decision-making by the Foundation are:

- to ensure that the Foundation endowment assets are invested prudently and in a manner consistent with the Foundation’s Purpose and values;
- to maintain and grow the Foundation’s capital base above the rate of inflation, investing the endowment in accordance with the investment strategy and targets established by the Trustees;
- to ensure that sufficient cash and/or liquidity is available to make distributions and meet the granting policies and commitments of the Foundation; and
- to maximise the funds available for distribution over the long-term.

Distribution policy and grants

The focus of the Foundation will be to build the capital base to the point that the Foundation has sufficient scale to commence the making of distributions out of investment income on an enduring basis.

Once sufficient scale has been achieved, the Foundation envisages being in a position to make distributions each year equal to a minimum of 2.5% of the capital base at the start of the year.

The targeted level of distributions may be reviewed from time to time reflecting the growth of the endowment, the nature and extent of opportunities to deliver on the Foundation's purpose, and changes in investment market conditions (e.g. should expected investment income increase or decrease markedly).

Portfolio risk and investment return expectations for the General Corpus

The Foundation's investment risk profile will be set to prudently grow the capital base over the long-term.

The Trustees recognise that investment markets are prone to short-term volatility, which in turn can result in fluctuations in the capital base. To help ensure the capacity of the Foundation to consistently make annual distributions to deliver on its Purpose, the Trustees will seek to build a capital buffer and in the ordinary course will target making grants up to a maximum level equivalent to two-thirds of investment income. (It will not in the ordinary course make distributions out of the corpus itself).

Each year the Trustees will review the Foundation's financial position:

- If the capital buffer is below the level targeted by the Trustees specific advice will be taken from the Investment Managers regarding the investment outlook to determine if any action needs to be taken;
- If the assets comfortably exceed the capital buffer targeted by the Trustees, such surplus shall be taken into account by the Trustees in setting the Foundation's' distribution policy.

The return – and acceptable volatility of return – targets of the Trustees are to achieve:

Over the Long term (20+ years)

- a real return after investment and other expenses, on average, of at least 5.0% per annum, and

Over the Short term (rolling 2-3 years)

- a cash yield (i.e. cash flow income return) of 5.0% of the capital base per annum (noting that the Foundation is a non-taxpayer).

Investment strategy

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

Asset class	Benchmark allocation	Allowable range
Liquidity: Cash	5.0%	0% - 20%
Income: Bonds	50.0%	30% - 65%
Growth: Property/shares/other	45.0%	30% - 60%

In respect of the above strategy:

- Grants approved but not paid and other distribution commitments pending within 12 months will be held in highly liquid cash/fixed interest, as appropriate.
- Investments will be managed on a predominately “buy and hold” basis, and the investment portfolio diversified across a minimum of 25 investments, without undue concentration in any one company, sector or asset class.
- The Foundation has NZ dollar distribution objectives and commitments. As such, the majority of liquidity and income assets should be NZ dollar assets. Where overseas investments are made, the currency risks of overseas investments may be hedged, if recommended by the Investment Managers and approved by the Trustees.
- The Foundation and its Investment Managers will have a period of 6 months to integrate newly received bequests (whether cash, financial assets or other) into the Investment Strategy.

Investment guidelines and restrictions (General Corpus)

The investment guidelines and restrictions summarised below are in place for prudential reasons and apply to the General Corpus but not specially tagged bequests.

Departures from these require the unanimous written approval of the Trustees.

Shares & property

- Investments must generally be confined to publicly listed, widely-held securities trading in recognised markets. Investments in NZ or Australian private equity funds may be permitted with the prior written consent of the Investment Advisory Committee.
- The Foundation should not hold more than 2.0% of the equity of any one company and no individual holding should be over 5.0% of the value of the Foundation endowment.
- The property assets will be confined to listed securities. Direct property investments may only be made with the unanimous consent of the Trustees.
- Investments in companies in the liquor, gambling, tobacco, pornography, arms and ammunition sectors are considered incongruent with the purpose and values of the Foundation and are precluded.

Bonds

- The average credit quality of the portfolio should be equivalent to at least a Standard & Poors investment grade (BBB) credit rating. No more than 20% of the Foundation's endowment may be invested in securities that are non-investment grade or perpetual.
- With the exception of New Zealand government stock, no holding of an investment grade bond should exceed 5.0% of the value of the Foundation endowment and no holding of a non-investment grade or perpetual bond should exceed 3.0% of the value of the Foundation endowment.

Cash

- Cash includes bank deposits and bank bills up to 365 days from a registered New Zealand bank (or equivalent financial institution) and shall have a level of security equal to, or better than, a Standard and Poors A1 rating.

General

- Investments shall be made within the context of a prudent overall approach and a paramount objective to ensure real capital preservation over the longer term. The Trustees recognise their investment responsibilities will at times extend beyond pure financial considerations reflecting the Foundation's community purpose and underlying values.
- Borrowing to invest is prohibited, except in relation to direct property assets with the written consent to the trustees.
- Total holdings (bonds and shares) in any one organisation, other than government bonds, shall not exceed 7.5% of the value of the Foundation endowment excluding new funds awaiting investment.
- Other than hedging foreign currency risk on overseas investment, no financial derivatives may be used.
- Where bequests are specially tagged by a benefactor these funds will be managed by the Foundation (and, where applicable, by its Investment Managers) in accordance with the instructions of the benefactor.

Governance & Investment Management

Governance

The responsibility for the oversight of the Foundation's investments and adherence with this investment policy rests with the Trustees. The Trustees have delegated oversight of day-to-day investment management to the Investment Committee.

Decisions to depart from this Investment Policy require the unanimous approval of the Trustees or, as part of their delegated authority, the Investment Committee.

Investment Management

- External investment professionals (Investment Managers) have been appointed to oversee and undertake the day-to-day investment management of the Foundation's investments.
- Detailed investment mandates provide a clear delegated authority to invest funds, in a manner consistent with this policy, and include operating guidelines as well as the Investment Managers' reporting requirements.
- The overall performance of the Foundation's investments and its Investment Managers will be evaluated on a regular basis, against the objectives set out in this Investment Policy and by reference to the returns available from cash assets and achieved in investment markets over the relevant evaluation period.

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