Bay of Plenty Community Trust

Statement of Investment Policy and Objectives

Adopted by the Trustees on 21 June 2018

TABLE OF CONTENTS

INTRODUCTION 1

FINANCIAL OBJECTIVES 2

INVESTMENT OBJECTIVES 3

SPENDING POLICY 4

INVESTMENT BELIEFS 5

STRATEGIC ASSET ALLOCATION 6

REBLANACING POLICY 7

TARGET PORTFOLIO BENCHMARKING 8

CURRENCY HEDGING 9

MANAGER CONCENTRATION LIMITS 10

ENVIRONMENT, SOCIAL AND GOVERNANCE POLICY 11

ALLOCATION OF RESPONSIBILITIES 12

1. INTRODUCTION

The purpose of this Statement of Investment Policy and Objectives ("SIPO") is to provide all parties involved in the portfolio management of the Bay of Plenty Community Trust ("the Trust" or “BayTrust”) with a document that sets out the objectives, policies and beliefs which govern investment decisions.

Trust Deed

The Trust Deed provides the Trustees with broad authority to invest the Trust's assets.

The Trustees shall invest the assets of the Trust in a manner which considers the requirements of the Trustee Act 1956, the Community Trusts Act 1999, and all other relevant legislation.

Effective Date

This SIPO takes effect from 21 June 2018 with the asset allocations to be implemented asap.

Review Dates

This SIPO replaces the previous SIPO adopted by Board resolution in February 2017.

The Trustees intend to review this SIPO in detail every three years or more frequently if there is a significant change in the Trust's circumstances. The Investment Advisor will also undertake an annual high level review of the SIPO to ensure it remains fit for purpose and to report any findings through to the Trust's Investment Committee.

Appendix

The Appendix includes additional information on:

- Terms used in this SIPO (Glossary)

2. FINANCIAL OBJECTIVES

The Trustees of the Bay of Plenty Community Trust will invest the assets of the Trust in a broad range of diversified investments designed to achieve the following objectives:

1. Maximise the total amount of distributions that can be financed by the investments of the Trust over the long term, subject to a prudent level of portfolio risk.
2. Maintain the Trust's real capital.

3. INVESTMENT OBJECTIVES

The overall investment objective of the Trust is to earn an average annual inflation-adjusted (real*) total return, after investment fees but before spending, of 5.0% over a full market cycle, in order to be able to achieve its spending policy as outlined under 4.

More specifically, the long-term objectives are to:

- Maintain the real* market value of the Trust in perpetuity.
- Ensure a stable level of spending over time.
- Maintain equity between present and future beneficiaries in perpetuity.

The Investment Committee recognises that the 5.0% real* return target is a long-term target and will not be achieved in every measurement period.

4. SPENDING POLICY

4.1 The ideal spending policy ensures a balancing of priorities, whereby the needs of current beneficiaries are not sacrificed in the interests of future beneficiaries, nor are future needs sacrificed to those of the present.

4.2 The Trust's spending policy is to have available for spending 4.0% of average trailing 12 quarter market value (net of investment income, realised capital gains & proceeds of sale of investments).

4.3 The difference between the Trust's 4.0% spending rate and the portfolio's 5.0% real investment objective builds in a buffer for population growth in the Bay of Plenty which has historically averaged about 1.0% and is forecasted to continue at this level.

4.4 Large one-time withdrawals from the Trust should be provisioned in advance to ensure appropriate liquidity and risk management.

4.5 As the fund follows a total return approach (rather than a distributed income approach), spending is sourced as needed from the portfolio (including proceeds of investment sales, net investment income, and capital gains)

*A real rate of return is the annual percentage return realised on an investment, which is adjusted for changes in prices due to inflation, as measured by the consumer price index.

5. INVESTMENT BELIEFS

The Trustees have an established set of investment beliefs that guide its investment of the Trust's portfolio:

5.1 Strong governance and well-defined decision making structures enable sound investment decision making

5.2 The investment horizon of the Trust is long-term and setting an appropriate strategic asset allocation that is appropriate to the objectives and risk tolerance stipulated is a key investment decision. This decision lies at the core of the Trust's risk and return and will therefore be the primary driver of long-term success

5.3 Higher levels of return are typically associated with higher levels of risk. For instance, equities are expected to outperform other asset classes in the long term but are likely to be more volatile in the short term and may result in periods of diminished purchasing power. However, a reasonably high allocation to equities is required to support spending while preserving the purchasing power of the Trust Fund. Conversely the primary purpose of a fixed interest allocation is to help maintain spending distributions from the Trust during a period of prolonged economic contraction, without having to sell equities at depressed prices to do so.

5.4 At times markets may become so far removed from fair value that there is a high probability of improving returns by tilting away from the strategic asset allocation. Nonetheless, such deviations must be reasonably constrained as the strategic asset allocation has been specifically designed to reflect the Trust's objectives.

5.5 Staying invested in markets in line with the investment strategy, even during times of financial turmoil, gives the Trust the best opportunity to achieve its long term goals

5.6 Assuming that suitably qualified professional managers are used, the majority of portfolio risk is attributable to market risk rather than manager-specific risk.

5.7 Markets are highly competitive but not always perfectly efficient. Active managers can add excess return over benchmarks. In some markets/asset classes, manager structures that include a passive approach may be more appropriate.

5.8 Diversification, particularly across low or negatively correlated investments, has the potential to improve the risk/return trade-off. This applies at the overall Trust level (in terms of the selection of asset classes), at the asset class level (in terms of the selection of more than one manager) and at the manager level (in terms of the selection of securities).

5.9 BayTrust believes in the principles behind ESG investing and in using its capital to drive a more equitable and environmentally sustainable world on the basis that as a perpetual investor this will drive sustainable, long term investment returns.

6. STRATEGIC ASSET ALLOCATION

The Trustees consider that the choice of strategic asset allocation (SAA) has the most influence on the likelihood of the Trust achieving its investment objectives. The Trustees have retained responsibility for this decision, which is made on the advice of the Investment Advisor and/or other investment professionals.

The Policy Asset Allocation Targets for the BayTrust are categorised under two broad Asset

Groups according to the primary roles that each asset class plays in the portfolio:

- Growth Assets
- Defensive Assets

Table 1: BayTrust Strategic Asset Allocation

Asset Classes	Policy Target
Growth Assets	**60.0%**
Global Equity	27.0%
Emerging Market Equity	5.0%
Private Investments[1]	10.0%
Growth Alternatives	7.5%
Impact Investments	3.0%
Infrastructure and Property[2]	7.5%
Defensive Assets	**40.0%**
Defensive Alternatives	10.0%
Impact Loans	3.0%
Global Fixed Income	14.5%
New Zealand Fixed Income	10.0%
Cash	2.5%
Total	**100.0%**

[1]Includes both Australasian and global private investments
[2]Includes both listed and unlisted investments

6.1 Equities (public and private) have historically outperformed other asset classes and are therefore the Trust's growth engine. It is recognised that a portfolio biased to Growth Assets could be severely impacted during periods of unanticipated inflation or prolonged deflation. Infrastructure and property can protect the portfolio against inflation.

6.2 Defensive Assets are included to provide stable returns, liquidity and protection against a prolonged economic contraction. In order to fulfil its deflation hedging role, a significant proportion of the allocation to both New Zealand and Global Bonds will be invested in high quality fixed income securities. In addition Defensive Alternatives aim to dampen volatility while attempting to improve the risk/return profile. Defensive Alternatives represent strategies that may more complex than standard bond portfolios, but that offer capital protection and safety in periods of equity market declines.

6.3 Impact investments and loans will be sourced and managed by BayTrust's Management team.

6.4 To ensure sufficient liquidity is always available to BayTrust, the Trust's targeted cash level is set at 2.5%.

6.5 The Strategic Asset Allocation (Table 1) serves as a guide to target asset allocations. However, there may be times when the BayTrust overweights/underweights certain asset classes relative to its target allocations or initiates exposure to other asset classes opportunistically.

7. REBALANCING POLICY

7.1 The objective of rebalancing is to keep the Trust's portfolio asset allocation at or near the BayTrust policy weights in order to obtain the benefits of diversification and maintain an asset allocation that has been designed to help achieve the stated investment objectives, without incurring additional unintended risks.

7.2 The allocation to each asset class should observe its Policy Target, unless a specific Tactical Target has been established for the asset class. Such allocations would be allowed to vary from the Policy Target within the Rebalancing Range for each asset class (see Table 2).

7.3 In order to avoid incurring unnecessary transaction costs, rebalancing actions should be timed to coincide with cash outflows (spending draw-downs) to the extent reasonably possible.

7.4 Whilst rebalancing of private investments is not possible due to illiquidity, the policy ranges serve as a guide for the commitment pacing of private managers.

7.5 Minor rebalancing transactions have been delegated by the Investment Committee to the Trust's Chief Executive Officer with advice from the Trust's Investment Advisor. Asset allocations can be rebalanced within 2% of the portfolio's current positioning provided the resulting asset allocation conforms to SIPO guidelines. These transactions include partial manager redemptions and additions to meet operating cash needs and capital calls/distributions for private investments.

7.6 The Investment Committee of the Trust has Board delegated authority with advice from the Trusts Investment Advisor to rebalance within the below Policy Ranges.

Table 2: BayTrust Rebalancing and Tactical Policy Asset Allocation Ranges

Asset Classes	Policy Target	Policy Ranges
Growth Assets	**60.0%**	**50 – 70%**
Global Equity	27.0%	10 – 40%
Emerging Market Equity	5.0%	0 – 10%
Private Investments	10.0%	5 – 15%
Growth Alternatives	7.5%	5 – 15%
Impact Investments	3.0%	0 – 5%
Infrastructure and Property	7.5%	5 – 15%
Defensive Assets	**40.0%**	**30 – 50%**
Defensive Alternatives	10.0%	5 – 15%
Impact Loans	3.0%	0 – 5%
Global Fixed Income	14.5%	5 – 25%
New Zealand Fixed Income	10.0%	5 – 20%
Cash	2.5%	0 – 8%
Total	**100.0%**	**100.0%**

8. TARGET POLICY PORTFOLIO BENCHMARKING

8.1 The Trust's portfolio, asset classes and managers will be benchmarked to relevant indices for performance evaluation.

8.2 Investment Objective Benchmark: The long-term return (over rolling 5 to 10 year periods) of the portfolio is to achieve a real return target of 5% (CPI plus 5%).

8.3 Policy Benchmark: A secondary objective in the portfolio benchmarking is to measure whether the portfolio has performed in line with expectations given the allocation to each asset class in the portfolio. To evaluate this, the returns of the Trust will be measured against a blended policy index composed of indices reflecting the allocation and benchmark of asset class in the Strategic Asset Allocation. See Table 3 for a reference to asset class benchmarks.

8.4 Manager Weighted Benchmark: A blend of indices representing the benchmarks for individual managers, weighted but the amount invested in each manager.

Table 3: Composition of the Target Policy Portfolio Benchmarks

Asset Classes	Benchmark
Growth Assets	**Blend of Asset Class Benchmarks at SAA Weights**
Global Equity	MSCI World Index (Net)
Emerging Market Equity	MSCI Emerging Market Index (Net)
Private Investments	50% MSCI World Index (Net), 50% S&P NZX 50 Index
Growth Alternatives	HFRI Fund of Funds Diversified
Impact Investments	S&P NZX 50 Index
Infrastructure and Property	Weighted blend of underlying strategy benchmarks
Defensive Assets	**Blend of Asset Class Benchmarks at SAA Weights**
Defensive Alternatives	S&P/NZX 90 Day Bank Bill
Impact Loans	S&P/NZX 90 Day Bank Bill
Global Fixed Income	Bloomberg Barclays Global Aggregate Bond Index
New Zealand Fixed Income	Bloomberg NZ Bond Gov 0+ Yr Index
Cash	S&P/NZX 90 Day Bank Bill

Note: Benchmarks are hedged in line with the Trust's currency policy (Table 4)

9. CURRENCY HEDGING

9.1 Currency exposure can introduce additional unrewarded volatility to the portfolio. The currency hedging policy manages the impact of currency fluctuations to portfolio returns over time by limiting the portfolio's total unhedged foreign currency exposure to 30% of total assets.

9.2 The currency hedging policy will be implemented by asset class as outlined in Table 4.

9.3 Where possible hedging will be implemented at the manager level. Where hedged share classes are not available, a passive currency overlay will be used.

Table 4: Currency Hedging Policy

Asset Classes	Policy Target	Hedging Policy
Global Equity	27.0%	50% Hedged
Emerging Market Equity	5.0%	No Hedging
Private Investments	10.0%	No Hedging
Growth Alternatives	7.5%	100% Hedged
Impact Investments	3.0%	No Hedging
Infrastructure and Property	7.5%	100% Hedged
Defensive Alternatives	10.0%	100% Hedged
Impact Loans	3.0%	No Hedging
Global Fixed Income	14.5%	100% Hedged
New Zealand Fixed Income	10.0%	No Hedging
Cash	2.5%	No hedging

10. MANAGER CONCENTRATION LIMITS

10.1 To provide reasonable assurance that no one manager could have a disproportionately negative impact on the Trust's aggregate results, exposure to any single actively managed fund should be limited to:

- 10% for a growth fund. These funds typically exhibit higher volatility which results in the potential to have bigger impact on portfolio returns
- 20% for a defensive or multi-manager fund. These funds characteristically have lower risk and/or are more diversified which enables larger positions to be taken

10.2 In addition, investments should not constitute more than 10% of a third-party pooled fund's assets under management[1]

10.3 The Committee may at its discretion make exceptions to these limits, for example, for the purposes of averaging in, testing a new asset class or manager, or building a relationship

[1]The limit applies at the strategy/fund level, not the individual investment vehicle level

11. ENVIRONMENT, SOCIAL AND GOVERNANCE POLICY

11.1 The Trust's managers and advisers will incorporate Environmental, Social and Governance (ESG) considerations in its investment process.

11.2 The Trust will - to the extent that it is practicable and material - not invest in industries or sectors that are contrary to New Zealand legislation or current government policies, or where there is clear evidence that it is contradictory to the Trust's mission of benefitting the Bay of Plenty community.

12. ALLOCATION OF RESPONSIBILITIES

Roles of the Investment Committee

The oversight responsibilities of the Investment Committee include quarterly review of investment performance, development of investment policies, and oversight of implementation, selection and monitoring of the managers, monitoring of the spending rate and rebalancing within the Policy Ranges.

Roles of the Management

The management's responsibilities involve the day to day management of the Trust and include, but are not limited to the following: administration of investments (including delegated authority for operational rebalancing within a 2% range); implementing policy/Investment Committee decisions and spends in accordance with approved requirements.

Role of Investment Advisor

Provide ongoing advice and recommendations on portfolio construction and allocations across sub-asset classes and geographies. The advisor will:

- Maintain an implementation schedule of attractive investment opportunities;
- Recommend appropriate managers and the role they play in the portfolio;
- Provide necessary due diligence and supporting documentation and analysis on recommended managers;
- Conduct analysis on other attractive opportunities, and help position for access.
- Monitor all investments and exposures, provide investment recommendations in real-time, as required

An integral objective of the advisor's mandate is to educate and build the knowledge of the Investment Committee. The advisor will affect this through an active dialogue with the Investment Committee and Management team, and education sessions separate to ongoing committee meetings, upon request.

APPENDIX: Glossary of Terms

Asset classes - Broad groupings of financial securities such as shares, bonds and cash, usually split into domestic and overseas categories.

Policy portfolio benchmark - A passively managed portfolio representing an alternative to active management. The return of the policy benchmark is used in assessing the performance of the portfolio.

Active management - Selecting securities with the objective of producing returns that will outperform the market (as represented by a benchmark index).

Passive management (also called **index investing**) - Holding securities according to their weight in the benchmark index with the objective of producing returns broadly in line with the benchmark index.

Outperformance - The value added by active management; that is, the amount by which an active manager beats its benchmark index.

Strategic asset allocation (SAA) - The policy allocation of the portfolio between the various asset classes.

Volatility - The degree to which returns fluctuate over time. This is generally expressed as a statistical measure known as standard deviation.

Correlation - A measure of how two series of returns relate to one another. A positive/negative correlation indicates that the returns tend to move in the same/opposite direction.

Diversification - Spreading investment over a range of asset classes, sectors, regions and securities with the aim of reducing risk.

ESG (Environmental, Social and Governance) -An approach to investment that takes into account factors such as environmental and social issues.

Hedging - An investment that offsets the return from another investment.

Impact investments - as defined in the Trusts Impact Investment Policy are investments made into companies, organisations, and funds with the intention to generate a measurable *Social Impact* alongside a *Commercial Return.* Impact Investments may include (but are not limited to) direct ownership of property, public or private equity, loans, shares or investments in social enterprises, cash investments with a specific purpose, or guarantees

Liquidity - A measure of the ease by which investments can be redeemed.