Bay of Plenty Community Trust

Statement of Investment Policy and Objectives

Adopted by the Trustees on 24 September 2020

(V.4)

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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 25 March 2020 with the asset allocations to be implemented in accordance with advice from the Trust’s Investment Advisor.

Review Dates

This SIPO replaces the previous SIPO adopted by Board resolution on 24 September 2020 and will be next reviewed in September 2021.

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)

5. INVESTMENT BELIEFS

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

*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.

5.1 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, listed in Table 1 and Table 2, 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 '60/40' Strategic Asset Allocation & Rebalancing 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[1]	10.0%	5 – 15%
Growth Alternatives	7.5%	5 – 15%
Impact Investments	3.0%	0 – 5%
Infrastructure and Property[2]	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%**	

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

The Trustees confirmed on 25 March 2020 to change from the primary '60/40' strategic asset allocation listed in Table 1 to the Trust's long term preferred '75/25' strategic asset allocation listed in Table 2 as a result of the significant market correction arising from Covid-19 impacts that warrants increasing exposure to growth assets. The transition from the 60/40 to the 75/25 strategic asset allocation will occur over time in a staged manner based on advice from the Trust's Investment Advisors.

Table 2: BayTrust '75/25' Strategic Asset Allocation & Rebalancing Ranges

Asset Classes	Policy Target	Policy Ranges
Growth Assets	**75.0%**	**65 – 85%**
Global Equity	30.0%	15 - 45%
Emerging Market Equity	5.0%	0 – 10%
Private Investments[1]	15.0%	5 – 20%
Growth Alternatives	10.0%	5 – 15%
Impact Investments	5.0%	0 – 10%
Infrastructure and Property[2]	10.0%	5 – 15%
Defensive Assets	**25.0%**	**15 – 35%**
Defensive Alternatives	5.0%	0 – 15%
Impact Loans	5.0%	0 – 10%
Global Fixed Income	7.5%	5 – 20%
New Zealand Fixed Income	5.0%	2.5 – 15%
Cash	2.5%	0 – 8%
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 Fixed Income 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. In the event of a large market decline, listed New Zealand and Global Fixed Income will be used to fund ongoing capital requirements, such as granting, currency hedge losses and private investment capital calls.

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 and 2) 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 1 and 2).

7.3 In order to avoid incurring unnecessary transaction costs, rebalancing actions should be timed to coincide with cash outflows (spending drawdowns) 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 Trust's Investment Advisor to rebalance within the below Policy Ranges.

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	Hedging Policy
Global Equity	50% Hedged
Emerging Market Equity	No Hedging
Private Investments	No Hedging
Growth Alternatives	100% Hedged
Impact Investments	No Hedging
Infrastructure and Property	100% Hedged
Defensive Alternatives	100% Hedged
Impact Loans	No Hedging
Global Fixed Income	100% Hedged
New Zealand Fixed Income	No Hedging
Cash	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. In particular, BayTrust will actively measure (where able) the carbon footprint of the investment portfolio and will, without materially impacting the portfolio's financial returns, move to a robust and evidence-backed approach to assessing all new investments to ensure that the investment portfolio's carbon exposure is reduced by 50% by 2025, with the long-term goal to be carbon neutral by 2030.

12. ALLOCATION OF RESPONSIBILITIES

Role of the Board

The Board is responsible for:

- Establishing the objectives and policies set out in the SIPO.
- Ensuring a comprehensive enterprise SIPO review by reviewing, updating and approving the objectives and policies on a triennial basis, or earlier if the Investment Committee advise.
- Reviewing outcomes and any recommendations resulting from the Investment Committee's annual high level review of the SIPO.
- Oversight of compliance with the objectives and policies
- Selection of the Investment Advisor

Role of the Investment Committee

The Investment Committee's responsibilities include:

- Ensuring compliance with the objectives and policies set out in the SIPO
- Annual high-level review of the SIPO and reporting on this review including any recommendations through to the Board for decisions
- Manager selection and monitoring
- Quarterly review of investment performance taking into account the Trust's long-term objectives
- Quarterly rebalancing – typically arising from a decision to make strategic tilts or in response to a sizeable cashflow Role of Management / Investment Staff (Staff)

Role of Staff

The responsibilities of Staff involve, but are not limited to:

- The day to day management of the Trust
- Administration of investments (supported by the Investment Advisor)
- Operational rebalancing within 2% of the portfolio's current positioning

- Management of term deposits and cash
- Implementation of Investment Committee decisions

Role of Investment Advisor

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

- Report performance and positioning
- 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 (see Appendix for more detail)
- Conduct analysis on other attractive opportunities and help position for access
- Provide administrative support to staff
- 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.

APPENDIX: Cambridge Associates' Return and Risk Assumptions

EQUILIBRIUM ASSUMPTIONS

	REAL ARITHMETIC RETURN	STANDARD DEVIATION	25TH-75TH PERCENTILE RANGE[1]	REAL COMPOUND RETURN
New Zealand Equity	6.5	19.0	4.1 - 9.0	4.8
Developed Market Equity	7.0	18.0	4.7 - 9.4	5.5
Emerging Market Equity	9.5	26.3	6.2 - 12.9	6.5
Global Equity	7.5	18.2	5.2 - 9.9	6.0
Absolute Return	4.0	12.9	2.3 - 5.7	3.2
Equity Hedge Funds	6.0	15.1	4.0 - 8.0	4.9
Venture Capital	12.0	31.0	8.2 - 15.9	7.9
Private Equity	10.0	24.4	6.9 - 13.2	7.4
Commodities	5.0	21.8	2.2 - 7.8	2.8
Natural Resource Equity	6.5	19.0	4.1 - 9.0	4.8
Real Estate Securities	6.5	18.8	4.1 - 9.0	4.9
Real Estate	7.0	21.1	4.3 - 9.8	5.0
Oil & Gas	7.5	23.0	4.6 - 10.5	5.1
New Zealand Government Bonds	3.0	7.0	2.1 - 3.9	2.8
Developed Market Gov't Bonds	3.0	13.3	1.3 - 4.8	2.2
Dev. Market Inflation Linked Bonds	2.5	12.4	0.9 - 4.2	1.8
Investment Grade Credit	3.5	13.5	1.7 - 5.3	2.6
High Yield Bonds	5.0	15.1	3.0 - 7.0	3.9
Cash	1.0	2.0	0.7 - 1.3	1.0

[1] Over 25-year periods, arithmetic returns are expected to fall within the range half the time.

APPENDIX: Summary of Cambridge Associates' Due Diligence Process

Our due diligence process is designed to identify funds that have the elements necessary to produce attractive risk-adjusted returns for our clients. These elements include a coherent investment philosophy and approach, an identifiable competitive advantage, personnel with appropriate experience, adequate back-office resources to support the investment process, tight risk controls, and a level of portfolio transparency that allows us to assess risks in the portfolio. We evaluate these characteristics through an initial due diligence process and, for managers we might recommend to clients, we monitor those managers through a structured ongoing due diligence process.

The nature of our due diligence process reflects our fundamental investment philosophy. We believe that qualitative evaluation of managers is the most valuable means of identifying promising managers and avoiding managers who are likely to encounter problems. While we employ quantitative tools, we believe that historical data is of limited use in predicting future outcomes. We therefore try to understand the fundamental biases of managers in order to evaluate how their portfolios are likely to perform in different market environments. For this reason, we require a degree of transparency that enables us to understand the depth of the manager's fundamental analysis and approach to risk control.

A primary focus of our due diligence is on the firm's research process, historical security selection skill, and portfolio structuring capabilities.

Initial Due Diligence

Preliminary Screening

The first stage of our due diligence process involves screening the hundreds of new hedge funds that come to our attention. In the course of a typical year, our research group reviews close to 1000 proposals from hedge fund managers. They screen the proposals to determine whether the fund in question has the following basic elements that we consider essential:

- An identifiable inefficiency in the market that the manager can exploit
- Adequate resources to exploit that inefficiency
- Demonstrated experience on the part of the portfolio management team
- Commitment to relative transparency sufficient to complete initial and ongoing due diligence
- Risk controls and appropriate portfolio construction principles
- A strategy that will generate acceptable returns without excessive leverage

This initial screen eliminates close to 80% of the funds under review.

Initial Meeting

Principals of companies that satisfy the basic criteria used in our initial screening are invited to our offices for a meeting with the research group. In these meetings we review the portfolio manager's experience, investment process, portfolio construction approach, and risk management. We evaluate the manager's research skills and commitment to transparency by discussing actual portfolio positions. We review the company's business plan, existing and planned staffing levels, business relationships (e.g., prime broker, administrator, auditor), and the stability of the firm's current and expected client base. Historical performance is reviewed, and we work to understand the sources of historical returns.

Further Due Diligence: On-Site Meeting

The next step in the due diligence process consists of one or more visits to the manager's offices by the research team, to explore investment issues in greater depth. These on-site visits typically consist of another meeting with the principals to follow up on points raised in the initial meeting, and individual meetings with other members of the investment and research staff. These meetings focus on the following issues:

- Investment team's skills, experience, and team chemistry
- Principals' articulation of firm philosophy and organisational policies
- Risk controls
- Fund assets under management and investor base
- Information flow between the analysts and the portfolio managers
- Disclosure policies

In the on-site meetings, the manager's portfolio is reviewed in detail and individual positions are discussed at length. This allows the research team to evaluate the quality of the manager's thinking, knowledge of portfolio holdings, and approach to portfolio construction. Discussions with analysts allow us to gauge the depth of analytical support for security selection as well as the information flow among the team members.

Fee negotiations are conducted during the due diligence process. We use our global scale and high-quality client base to secure manager fee reductions.

Quantitative Analysis

For managers with an identifiable track record, we perform quantitative analysis focusing on:

- Return patterns
- Volatility over time
- Correlation with other asset classes and changes in correlation over the firm's history
- Performance in up and down markets
- Drawdowns and recovery periods

Business Risk Management

Firms that appear promising from an investment perspective are then subjected to a review of operational and business risks by our Business Risk Management team. This process consists of the following components:

- Background Checks - The Business Risk Management group conducts and coordinates manager background checks, as part of the due diligence process. We perform preliminary work (including reference checks) in-house, focusing on senior operating and investment personnel - such as Chief Investment Officer(s), Founder(s), Lead Portfolio Manager(s), Chief Operating Officer, Chief Financial Officer, and/or the Chief Compliance Officer, as well as the entity itself. We conduct thorough database research at the subject and entity level using publicly available information. If our internal work reveals any issues of concern, we will discuss with the investment research and Business Risk Management teams and may retain the services of a pre-approved, third party vendor to conduct additional research. Issues include, but are not limited to: litigation, negative media, questionable public record information, and criminal history. We currently use Kroll, Exiger and Stroz Friedberg for background checks, however, we may use other vendors as situations or our judgment dictates.
- Operational Review - A systematic review of the operating and business practices of the fund, conducted on-site and focused on procedures, controls, operating and organisational structure, operational risks, vendors and personnel. The purpose of the operational review is to determine if the operating structure, process and controls are sufficient to support the investment objectives of the fund. We focus on the adequacy of procedures, the adherence

to these procedures and the capabilities of the operating management, personnel and vendors to support the fund. Among the issues covered in these reviews are the allocation of management responsibilities, trading procedures and controls, valuation policies, cash controls, compliance program, disaster recovery plans, and cyber-security controls. We review the pricing process, price sources and other procedures and controls relative to the fund's calculation of the net asset value (NAV).

- Terms Review - An analysis of basic fund documents from a business perspective, to identify any terms (e.g., liquidity provisions, expense allocations, etc.) that differ from industry norms. This is not intended to substitute for a legal review of the documents but rather to highlight key business terms.

  Where appropriate, we will also check references on key personnel, using our network of industry and investor contacts.

Ongoing Due Diligence

We actively monitor managers that we recommend to our clients. This ongoing due diligence is built around monthly data collection, quarterly monitoring, on-site meetings, and periodic operational reviews.

- On a monthly basis, we receive performance data, and in some cases basic portfolio data, from managers.
- Quarterly, we collect the following data from the managers we monitor: performance, number of positions, names of the top ten positions, market capitalisation, sector exposure, geographic exposure, strategy allocation, assets under management, investor types, available capacity, personnel changes, changes in valuation procedure and pending legal actions or regulatory investigations. We schedule a call at least twice annually with the portfolio manager, and more often for many funds. These calls are the essential vehicle for ascertaining that the characteristics we identify in our initial due diligence remain in place.
- We have a member of the research or consulting team make an on-site visit to each manager we monitor on an annual basis. In some cases, an onsite visit by the portfolio manager to Cambridge Associates will suffice.
- Business Risk Management Reviews are conducted every 18-36 months or more frequently as determined based on the complexity of the firm, growth, operational or system changes or other events that could impact the operational integrity of the manager.

The objective of our ongoing due diligence is to ensure that we remain comfortable with all aspects of each monitored manager's investment activity and operational issues as the firm evolves over time.

On Watch Managers

If there is a change to the investment team, a company or strategy's assets under management materially declines, or the performance of the fund deviates from expectation, we will place the manager on watch. This involves more intensive monitoring of the team and strategy with frequent calls with the team. Typically, a manager will be placed on watch for six months to allow time to assess the impact of the changes (following all the criteria set out above), after which a decision will be made whether to continue to invest or redeem.